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**AUDIT COMMITTEE CHARACTERISTICS AND
FINANCIAL REPORTING QUALITY IN NIGERIA: THE
MEDIATING EFFECT OF AUDIT QUALITY**



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UUM
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**DOCTOR OF PHILOSOPHY
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**AUDIT COMMITTEE CHARACTERISTICS AND FINANCIAL
REPORTING QUALITY IN NIGERIA: THE MEDIATING EFFECT OF
AUDIT QUALITY**

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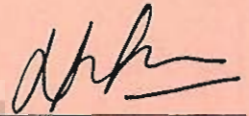
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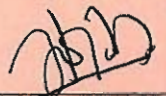
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ABSTRACT

This study examines the mediating effect of audit quality (AQ) proxied by audit fees and Big 4 auditors on the relationship between the audit committee (AC) characteristics and financial reporting quality (FRQ) of listed companies in Nigeria. The study employed 88 firms listed in the Nigerian Stock Exchange through 440 firm-year observations for five years ranging from 2012 to 2016. A multiple regression was employed to test the mediation using the Baron and Kenny and Sobel Tests. The findings reveal that the AC size, AC independence, AC financial accounting experts (ACFAEs), AC legal experts (ACLEs), female AC members (FACMs), AC stock ownership (ACSO), and AC tenure are negatively and significantly associated with the discretionary accruals (DA) and income smoothing (IS) behaviour of firms. In contrast, it is documented that the AC chair cannot be relied upon in minimising agency problems in a situation where the committee is chaired by a shareholder. The study shows that the AC size, AC independence, ACFAEs, ACLEs, and ACSO are positively related to AQ. It is established that AC meetings, FACMs, AC tenure, and AC chair are inversely related to AQ. It is also established that a higher audit fee is associated with lower DA and lower IS. Moreover, the mediation model reveals that audit fees partially and significantly mediate the relationships amongst the AC size, ACFAEs, ACLEs, FACMs, ACSO, and FRQ. This study recommends that the Nigerian SEC should, in the review of subsequent codes, recognise the presence of independent directors and legal experts in the AC as they are found to be effective monitors in constraining artificial smoothing. However, the regulators should be cautious about shareholders serving as chairpersons of the AC, and emphasis should be placed on the financial expertise and experience rather than relying on the status of the shareholders.

Keywords: audit committee characteristics, audit quality, audit fees, Big 4 auditors, financial reporting quality

ABSTRAK

Kajian ini menyelidik kesan perantaraan kualiti audit ke atas hubungan di antara ciri-ciri jawatankuasa audit (AC) dan kualiti pelaporan kewangan (FRQ) syarikat-syarikat tersenarai di Nigeria. Kajian ini menggunakan 88 buah firma yang disenaraikan di Bursa Saham Nigeria melalui 440 pemerhatian tahunan firma selama lima tahun bermula dari 2012 hingga 2016. Regresi berganda telah digunakan untuk menguji perantaraan tersebut menggunakan ujian *Baron* dan *Kenny and Sobel*. Dapatan menunjukkan saiz AC, kebebasan AC, pakar perakaunan kewangan AC (ACFAE), pakar perundangan AC (ACLE), ahli wanita AC (FACM), pemilikan saham AC (ACSO) dan tempoh lantikan AC adalah negatif dan ketara berhubungkait dengan akruan budi bicara (DA) dan tingkah laku pelicinan pendapatan (IS) firma. Sebaliknya, seperti yang telah didokumentasikan, tidak hanya mengharapakan pengerusi AC untuk mengurangkan masalah agensi sekiranya jawatankuasa itu dipengerusikan oleh seorang pemegang saham. Kajian ini juga menunjukkan bahawa saiz AC, kebebasan AC, ACFAE, ACLE, dan ACSO mempunyai kaitan positif dengan kualiti audit. Seperti yang telah dibuktikan, mesyuarat AC, FACM, tempoh lantikan AC dan pengerusi AC tidak mempunyai sebarang hubungkait dengan kualiti audit. Dapatan daripada kualiti audit dan model-model FRQ pula telah menunjukkan bahawa yuran audit yang tinggi ada hubungkait dengan DA dan IS yang rendah. Selain itu, model perantaraan menunjukkan bahawa yuran audit menjadi perantara secara separa atau ketara, kepada hubungan di antara saiz AC, ACFAE, ACLE, FACM, ACSO dan FRQ. Kajian ini mencadangkan bahawa SEC Nigeria, patut mengkaji semula kod berikutnya dan mengambil kira kehadiran pengarah bebas dan pakar perundangan di dalam AC kerana mereka didapati boleh berfungsi sebagai pengawas yang berkesan dalam menghalang tingkah laku penipuan dalam bentuk pelicinan (pendapatan) palsu. Walau bagaimanapun, pengawal selia perlu berhati-hati dengan pemegang saham yang berkhidmat sebagai pengerusi AC, dan penekanan harus diletakkan pada kepakaran dan pengalaman kewangan, dan bukannya bergantung pada status pemegang saham.

Kata kunci: ciri-ciri jawatankuasa audit, kualiti audit, yuran audit, juruaudit Big4, kualiti pelaporan kewangan

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LIST OF ABBREVIATIONS

AAN	Accountants of Nigeria
ACC	Audit Committee Chair
ACFAE	Audit Committee Financial Accounting Expert
ACI	Audit Committee Independence
ACLE	Audit Committee Legal Expert
ACM	Audit Committee Meetings
ACS	Audit Committee Size
ACSO	Audit Committee Stocks Ownership
ACT	Audit Committee Tenure
AUF	Audit Fees
AQ	Audit Quality
BE	Board Expertise
BI	Board Independence
BIG4	KPMG, Price Waterhouse Coopers, Ernst & Young & Deloitte
BOFIA	Banks and Other Financial Institutions Act
CBN	Central Bank of Nigeria
COF	Cash Flow from Operation
DA	Discretionary Accruals
EM	Earnings Management
FACM	Female Audit Committee Member
FAGE	Firm Age
FRCN	Financial Reporting Council of Nigeria
FRQ	Financial Reporting Quality
FS	Firm Size
GLS	Generalized Least Square
IBEI	Income Before Extraordinary Items
IOP	Income from Operation
IS	Income Smoothing
LEV	Leverage
MCCG	Malaysian Code of Corporate Governance
NAICOM	National Insurance Commission
NDIC	Nigerian Deposit Insurance Corporations
NI	Net Income
NSE	Nigerian Stock Exchange
OLS	Ordinary Least Square
OPI	Operating Income
PCAO	Public Company Accounting Oversight Board
PENCOM	Pension Commission
ROA	Return on Asset
SEC	Securities and Exchange Commission
SGROWTH	Sales Growth
SOX	Sarbanes Oxley Act
TCI	Telecommunication Industry

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter consists of the background of the study, which discusses the importance of audit committee characteristics on financial reporting quality. Practical issues relating to the ineffectiveness of financial reporting practices and corporate governance practices are presented in the chapter. This is followed by the problem statement, the research objectives, scope of the study, significance of the study, and the organisation of the chapters.

1.2 Background of the Study

Financial reporting is the economic outcome of an entity that is made available to the public. The essence of financial reporting is to communicate and share the financial information of a company with the stakeholders. The most pivotal item of a financial reporting system is the financial statement. The financial statements are a major means through which companies communicate to their users their financial results as well as position. Financial analysts and investors make use of the financial statement to make rational decisions (Yahaya & Adenola, 2011). These financial statements should not be intentionally prepared to mislead the user (Kibiya, Che-Ahmad & Amran, 2016b). This is because managers usually use financial statement to mislead investors' understanding of firm's value through earnings management (Lo, Ramos & Rogo, 2017). Thus, earnings management (EM) reflects managers' decision in financial reporting to modify financial reports to either deceive some stakeholders about the basic financial performance of the firm or to influence

contractual outcomes that rely on reported accounting numbers (Healy & Wahlen, 1999; Lo et al., 2017). Therefore, in this current study EM serve as a proxy for financial reporting quality (FRQ) in a reverse manner since lower EM indicates higher FRQ (Christensen, Huffman & Lewis-Western, 2017; Trovato, 2017).

It has been contended that the quality of financial reporting relies on the relevance and reliability of the accounting earnings (Christensen et al., 2017; Trovato, 2017). Thus, the relevance of the accounting earnings to the stakeholders of any given firm is very crucial since the entire faith of the entity as well as of its stakeholders depends on it. The accounting earnings are also the most vital items in financial statement that helps direct resource allocation in capital market. They are also the summary measure of company's performance use by various users including investors and creditors (Dechow, 1994).

It has been argued that earnings are relevant if they can be relied upon and hence, a system is reliable if it works in the manner it is supposed to work (Goel, 2014). However, the quality of earnings is considered as a significant determinant in detecting EM (Goel, 2014). Thus, management attempts to smooth the permanent variability of incomes will lead to lower earnings quality (Dechow, Ge & Schrand, 2010). Furthermore, it has been affirmed that firms may employ accruals to conceal poor present performance or to understate good present performance with a view to effectively save that for the future (Burgstahler, Hail & Leuz, 2006). Thus, managers take advantage of their experience about the entities and their opportunities to select accounting approaches and estimates that suit the entity's business economics, which

can potentially increase the value of the accounting numbers (Healy & Wahlen, 1999). In that, for earnings to maintain their relevance and reliability, there is a need to provide the means that can be used to improve the reported earnings.

It has been argued that corporate governance mechanisms have been established to aid stakeholders by aligning the interests of managers with the interests of investors, and by improving the dependability of the financial information and the truthfulness of the financial reporting process (Watts & Zimmerman, 1983). Some of the key components of these corporate governance mechanisms are the AC and external auditors. Thus, the agency theory posits that the key function of the AC is to ensure that an agent is performing in the best interest of the shareholders. Though the board of directors is likely to serve as the overall monitor of managers activities, it is the AC that is explicitly charged with the oversight of financial reporting (Krishnan, Wen & Zhao, 2011). Thus, the AC is expected to be mainly concerned about the consequences of poor or erroneous financial reporting, which comprise lawsuits and SEC action (Krishnan et al., 2011). Therefore, the AC has been included in this study because it is an effective corporate governance oversight mechanism that has a disciplining role on the manager's discretion in the estimation of the accounting numbers (Usman et al., 2017). The primary function of the AC is to promote the quality of the audits thereby increasing the FRQ (Malik, 2014). Furthermore, the external auditors play an important role in corporate governance which serves as a complementary mechanism for enhancing the legal protection of outside shareholders (Huang, 2006; Choi & Wang, 2003). This is because they assist in reducing the principal-agent conflict by ensuring that financial reports are diligently

made and free from material errors, and mitigate the likelihood of financial fraud and illegal reporting practices, such as EM (Wallace, 1980).

Studies have been conducted on the function of the AC in monitoring management (Abbott, Park & Parker, 2000; 2004; Defond, Rebecca, Hann & Hu, 2005; Farber, Huang & Mauldin, 2016; Baxter, 2007; Miettinen, 2008). It has been argued that independent and active AC members require a high level of audit to avoid monitoring and reputational losses arising from lawsuits. Abbott et al. (2000) and Defond et al. (2005) contended that only the financial accounting expertise of the AC improves governance, but broader financial skills improves the quality of the financial reporting environment. However, Krishnan et al. (2011) suggested that legal experts in the AC serve as monitors rather than a signal to FRQ. Farber et al. (2016); Liu, Tiras and Zhuang (2014); and Abernathy, Beyer, Masli and Stefaniak (2014) contended that a financial accounting expert plays a significant role in reducing EM and, consequently, enhances the quality of the financial reports.

More so, prior studies have argued better audit quality provides greater assurance about the reliability of financial reports, which enhances investors' protection (Alves, 2013; DeFond & Zhang, 2014). Thus, audit quality has been considered as another important governance and monitoring mechanism that enhances the reliability of the financial information (DeFond & Zhang, 2014). To achieve the quality of the audit, the auditors must be independent of mind and appearance. Thus, the AC ensures the auditor's independence; this, in turn, enhances the FRQ. As such, having an AC alone may not be enough in monitoring the reliability of an entity's financial

reports and auditing processes, and eventually protecting the interest of the investors (Alves, 2013). Previous literature suggests that internal governance mechanisms and external audits can be substituted for each other, which implies that greater internal control may decrease the demand for additional audit effort expected from the external auditors (Hay, Knechel & Wong, 2006). However, their empirical findings do not support this opinion (Abbott, Parker, Peters & Raghunandan, 2003; Carcello, Hermanson, Neal & Riley, 2002; Cohen, Krishnamoorthy & Wright, 2002; Hay, Knechel & Ling, 2008). On the other hand, prior studies on the effect of internal governance and external audits always propose that they are complementary, in that improving internal governance is associated with higher audit quality (Alves, 2013; Miettinen, 2008; Saleem & Alzoub, 2016).

Despite the importance of the AC and audit quality in monitoring management, the findings of previous researches have been mixed and the studies have been mostly conducted in developed nations. Seemingly, the Nigerian reporting environment has many differences with those of the United States, the United Kingdom, and other well-developed markets. Consequently, results from those markets do not necessarily generalise to the Nigerian context considering the unique feature of the AC formation which comprises representatives of both shareholders and directors. It has been argued that the existence of shareholders in the AC can erode their monitoring ability because this may compromise their independence in the decision-making process (Ahmed, 2017).

In Nigeria, the financial crisis in 2008 had increased the need to look for indicators of earnings reliability. This was because the crisis had led to the huge crash of the

Nigerian stock market in 2009 (Aina & Adejugbe, 2015). Examples of this are the accounting scandals by Cadbury Nigeria PLC, African Petroleum PLC, Intercontinental Bank, and Oceanic Bank. This scandal has been considered as Nigerian's Enron equivalent (Okaro & Okafor, 2015). In addition, the competing problems of the failed banks have remained in that they shared one thing in common. The management of the banks had been issuing non-performing and unsecured loans which led the CBN to inject ₦620 billion equivalent to (4.1 billion US Dollars) as a bailout (Kuye, Ogundele & Obaro, 2013). However, the CBN certified the banks as distressed just a few months after the auditors had certified their health (Okaro & Okafor, 2015). Most recently were the financial scandals relating to concealment and accounting manipulations by the Stanbic IBTC Holdings Plc in 2015 (Marshall, 2015; Ebosele & Nelson, 2015). The foregoing issues have brought about doubt in the minds of the shareholders on the credibility and reliability of financial reports in Nigeria (Okaro & Okafor, 2015).

In the light of the foregoing, various codes and statutes have been put in place to regulate, save, and sanitise the financial system in Nigeria and improve financial reporting practices. The regulatory authorities in Nigeria, such as the SEC, have compelled companies to conform with stringent codes of corporate governance. However, Nigeria has a diversity of codes with unique dissimilarities, namely, the SEC code of corporate governance 2003, which was reviewed in 2011; Central Bank of Nigeria (CBN) code of 2003, 2006, 2011 and 2014 as amended; National Insurance Commission (NAICOM) code of 2009; National Pension Commission (PENCOM) Code 2008; and Nigerian Communication Commission (NCC) Code of

Governance for the Tell Communication Industry (2014). However, the SEC code of corporate governance (2011) guides the operation of public companies listed on the NSE.

Owing to the above, the Nigerian Company and Allied Matters Act (CAMA) 1990 as amended in 2004 mandates public companies under Section 359(3), (4), and (6) to establish an AC. As such, companies establish ACs to improve accounting and reporting policies and ensure that the firms adhere to the legal requirements and agreed ethical practices (Financial Reporting Council of Nigeria, FRCN Act, 2011). The AC has the responsibility to ensure the integrity of the entity's financial statements, confirm that the regulatory and legal requirements are complied with, perceive the independence and qualifications of external auditors, and assure that the entity's internal and external audits function well (Nigerian SEC Code of CG, 2011). The committee is recognised to promote an entity's accountability by engaging with the auditors and management to improve or strengthen the FRQ of the firm (Okolie, 2014). Similarly, Enofe, Aronmwan and Abadua (2013) stressed that the AC enhances the reporting functions as it strengthens the independence of the auditors by allowing them to report their independent opinions to the executive directors.

Furthermore, in aligning with the global best practices of financial systems, Nigeria has adopted the International Financial Standards (IFRS). In view of the above, the Nigerian Accounting Standards Board Act 2003 (NASB) and its Standards, and Statement of Accounting Standards (SAS) were replaced by the FRCN Act (2011) in January 2012 to foster the implementation of the IFRS. The functions of the FRCN are similar to those of the NASB with some little modifications or improvements.

These include, amongst others, the establishment and issuance of accounting standards to be employed in producing financial reports of public companies as well as promoting and confirming strict compliance with the accounting standards approved by the Council (FRCN Act, 2011). Therefore, any company that fails to comply with the standards, if it is brought to the notice of the FRC, is punishable by imprisonment or a fine on each of the principal officers of the company as well as the external auditors.

Despite the considerable attention given by the Nigerian authorities in providing the multiplicity of codes, the established rules and procedures have seemed to be completely ineffective, henceforth, the need to address the issue (Osemeke & Adegbite, 2016). This is because the SEC ability to effectively monitor compliance with accounting ethics is insufficient, thus, it is currently under re-organisation (Adegbite & Adegbite, 2012). In addition, the banking investigation directed by the multiparty panel of the Central Bank of Nigeria (CBN) and National Deposits and Insurance Commission (NDIC) on the 30th December 2014 revealed many corporate abuses and the corporate governance mechanisms failed to address. These suggest the need for a review and update of the corporate governance standards in Nigeria to meet world best practices (Marshall, 2015).

In response to the above, the Nigerian legislatures has provided the FRCN with the statutory responsibility to formulate a unified code of corporate governance in the country and to ensure its compliance (Marshall, 2015). The code is meant to regulate corporate governance for public and private entities and to ensure the transparency, accountability, and reliability of corporate disclosure which will, in turn, guarantee

investors' confidence and protect the interest of the shareholders. Hence, the reliability of corporate financial disclosure lies on the credibility of the financial reporting provided by the management to financial information users.

Studies conducted in Nigeria on the FRQ, such as Madawaki and Amran (2013), have contended that the AC formation positively enhanced the FRQ. Ibrahim, Bello and Kargi (2016) concluded that only AC financial expertise was found to be effective in mitigating real activity manipulation. Kantudu and Samaila (2015) stressed that the proportion of independent directors in the AC enhances the monitoring function of the committee and enhances the financial report quality. Kibiya et al. (2016b) documented that AC stock ownership induces the AC to actively monitor and, consequently, enhance the entity's FRQ. Whilst Ormin, Tuta and Shadrach (2015) suggested that the frequency of the AC meetings should be increased because the more the committee meets, the better the quality of the financial report. Furthermore, AC gender is proved to have similar functions with female directors, in minimising EM in Nigeria (Dakata, Kamardin & Delima, 2016; Eze, 2017). More so, it has been argued that the longer the directors stay on the board, the more knowledgeable and experience they will have about the company's practices and thus, they will become more effective in minimising financial reporting fraud (Beasley, 1996; Hermalin & Weisbach, 1991). In contrast Ahmed (2017) argued that long tenure of directors in the AC increases EM.

The above inconsistencies of the findings require a more sophisticated analysis to determine the real impact of the AC on the FRQ in Nigeria. Furthermore, prior literature have documented that the functions of AC with respect to audit quality is

complex and goes beyond a direct relationship. Thus, warrants further research to fully explore the effect of AC and AQ in relation to FRQ (Goodwin-Stewart & Kent, 2006). Therefore, the foregoing facts further necessitate the need to investigate the likely impact of the AC characteristics on the FRQ of the listed companies in Nigeria. Hence, studying the mediating effect of audit quality on the relationship between the AC attributes and the FRQ of the Nigerian listed companies is expected to be of great importance because it will contribute more to the Nigerian economy.

1.3 Problem Statement

The global financial meltdown of 2008 has exposed many weaknesses in running the affairs of companies all over the world. This is coupled with several accounting scandals and failures (e.g., Enron, Global Crossing, Xerox, and WorldCom), which have made a lot of investors lose confidence and, consequently, raised serious concern about the credibility and reliability of financial reports and the AC effectiveness in protecting investors' interests (Adegbite & Adegbite, 2012; Domikowsky, Bornemann, Duellmann & Pfingsten, 2014). In response, there has been a global transformation towards promoting and implementing governance mechanisms to minimise the opportunistic behaviours that have dented the shareholders' reliability in financial information. For instance, the United Kingdom's Financial Reporting Council had consistently reviewed the Combined Code in 2010 and 2012 and the United States in 2002 introduced the Sarbanes-Oxley Act (SOX) as a response to the scandals of Enron and WorldCom to help promote the quality of information and improve financial reporting (Kingsley, Gina & Vivian, 2014). Therefore, there is an increasing need to be more proactive in corporate governance

issues since weak corporate governance can lead to the failure of a country's economic structure (Aina & Adejugbe, 2015).

Consequently, in Nigeria, Section 57 of the FRC Act (2011) mandates every public entity to prepare financial reports and ensure that the financial reports are in compliance with the accounting and financial reporting standards. Furthermore, Section 62 of the Act requires an independent investigation of any unethical practice or misconduct by any organisation to ensure the quality of the financial reporting to protect the interests of the investors. To achieve the quality of financial reporting, a monitoring committee is often put in place in order to make sure that firms produce relevant and reliable information which will eventually protect the interests of both existing and prospective investors. The most important of these monitoring committees is the AC. This is because the AC has been an active corporate governance oversight device that has a disciplining role on the manager's decision in the estimation of the accounting numbers

Despite the existence of these monitoring committees, there have been a lot of corporate failures in Nigeria in recent years. Thus, the independence of AC has been called into question. This is because the composition of AC in Nigeria has been criticized of being skewed in favour of management thus reducing the visible independence of the committee (Chukwunedu, Ogochukwu & Onuora, 2014). This in turn tends to compromise the quality of their work (Komolafe, 2012). For instance, the issue in Cadbury (Nig.) Plc, the AC of the firm was heavily indicted by the

Nigerian SEC report on the accounting scandal in that company as they were found guilty of complete negligence of duty (Al-Faki, 2008; Chukwunedu et al., 2014).

Furthermore, the SEC has disclosed a number of fraud related cases that had increased overtime. Figure 1.2 presents the trends of fraud related cases and the huge amount in losses incurred as a result of income misstatement by Nigerian firms. It is revealed from Figure 1.2 that there were about 1,639 cases with losses of 18.5 million USD in 2011. The year 2012 witnessed the highest losses of 314.5 million USD with 3,380 cases. For 2013, the highest number of cases of about 3,756 with losses of 254.5 million USD were observed (Noah, 2013; SEC Report, 2012, 2013). This has raised serious doubts about the credibility of financial reporting in Nigeria.

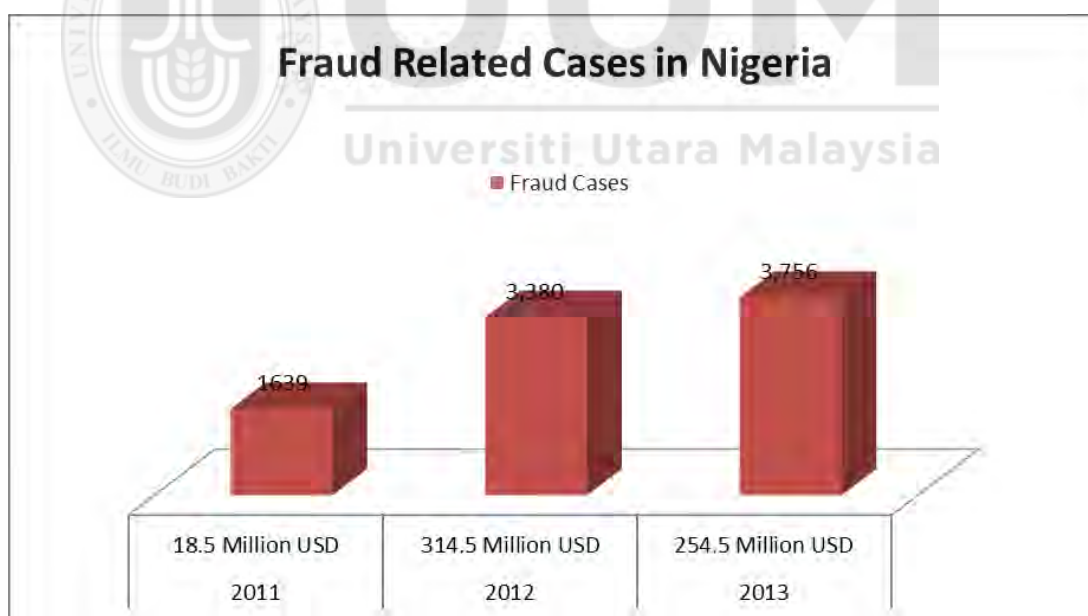


Figure 1.2
Graphical representation of Fraud Related Cases in Nigeria (2011-2013)

Most recently, in 2015, the Financial Reporting Council of Nigeria (FRC) again issued a regulatory order thereby suspending the Stanbic IBTC Holdings Plc

Chairman and its CEO for contention of concealment, accounting manipulations, and insufficient disclosures in the financial reports, which are contrary to the provision of Section 62 of the FRC. The audit firm (KPMG) has been suspended by the FRC for the approach it adopted that could not detect the infractions in the two accounting periods (Naija 24/7 News, October 28, 2016; Odunsi, 2015). This created a doubt as to the integrity of their financial statement and questioned the independence of the auditors. However, despite the existence of auditors and the AC, corporate scandals still exist.

As a result of the above-mentioned fact, this study has included a mediating variable „audit quality“. This was to enable the study to examine whether the relationship between the AC and FRQ passed through the mediation of audit quality (proxied by audit fees and Big 4 auditors). This was motivated by the recent increase and dominance of Big 4 auditors in the audit market concentration in Nigeria, which directly affect the fees paid to external auditors by their clients. Thus, Nairametrics (2017) gathered that the Big 4 auditors earned about 6.4 billion Naira (equivalent to 20.3 million USD) in the auditing services of the 28 largest firms in Nigeria in 2016 alone. Figure 1.3 presents the data which was obtain for the breakdown of the audit fees paid by the 28 Nigerian companies from various sectors of the economy including financial services, consumables, construction, and oil and gas (Footprint to Africa Media & Investment, 2017).

It is apparent from Figure 1.3 that the Big 4 firms (Price Waterhouse Coopers, KPMG, Ernst & Young and Deloitte) earned audit fees amounting to (8.1 million

USD, 6.2 million USD, 4.0 million USD, and 0.15 million USD) in 2015, respectively.



Figure 1.3
Graphical Representations of Audit Market Trends in Nigeria (2015-2016): Nairametrics (2017)

The figures had increased to (9.2 million USD, 7.2 million USD, 4.4 million USD, and 0.20 million USD) leading to an increase of (14%, 17%, 10%, and 31%) in 2016, respectively. However, the question that remains unanswered is whether this dominance of the Big 4 auditors in the market concentration in Nigeria and the corresponding increase in audit fees have influence over the FRQ of the listed firms in Nigeria.

In Nigeria, prior studies on the AC paid less attention on the AC expertise variables and female AC members. The work of Ormin et al. (2015) used three variables, including AC independence, AC meetings, and AC attendance. Ugbede, Lizam and Kaseri (2013) only used one independent variable (AC size). Similarly, Ahmed and

Che-Ahmad (2016) used a sample of 14 banks in Nigeria to examine AC size and EM. Fodio, Ibikunle and Oba (2013) used two variables (AC size and AC independence). Hassan and Ahmed (2012) used three independent variables (AC size, AC independence, and AC meetings). Kibiya, Che-Ahmad and Amran (2016a); Ibrahim, Bello and Kargi (2016); Miko and Kamardin (2014); and Dabor and Dabor (2015) considered AC expertise. However, they looked at only one aspect of expertise (financial accounting expertise). Dakata et al. (2016) only proposed a framework about female AC members and EM. The non-use of other important components of AC expertise and female AC members, which are believed to play a significant role in the activities of the AC, provided a gap that needed to be filled. However, none of the Nigerian codes has discussed the issue of gender or the AC expertise variables, such as AC financial accounting experts and AC legal experts.

Consequently, this study has considered some specific aspects of AC expertise that were not explored by prior studies in Nigeria (AC financial accounting experts and AC legal experts) and AC gender, AC tenure, and AC stock ownership. Female AC members represented AC gender because they have been proved to have similar functions with female directors in minimising EM in Nigeria (Dakata et al., 2016; Eze, 2017). Furthermore, AC tenure was chosen because the longer the directors stay on the board, the more knowledgeable and experienced they will be about the company's practices and thus, become more effective in minimising financial reporting fraud (Beasley, 1996; Hermalin & Weisbach, 1991). In addition, this study has incorporated AC stock ownership because it is shown to be a good motivator in making AC members more watchful, passionate, and vigorous in their monitoring

responsibilities (Kibiya et al., 2016b). However, studies on the AC in Nigeria have examined different attributes of the committee, but they have failed to explore the uniqueness attributed to the formation of the AC in Nigeria that is composed of the equal representation of shareholders and directors. Consequently, this study has examined how the influence of the AC chair (either a director or a shareholder) affects the FRQ of the listed companies in Nigeria. This is in line with the argument that the AC chair is very pivotal in establishing a relationship between the committee and the board of directors as well as the internal and external auditors (Schmidt & Wilkins, 2013).

At the same time, the period covered by some of the previous studies has left a gap. The works of Ormin et al. (2015), for instance, covered the period from 2003 to 2013. Ugbed et al. (2013) covered the period of 2007 to 2011 and Okaro and Okafor (2015) covered the period of 2012-2013. These periods can be considered as not too current as a lot of activities have taken place in the Nigerian market since then, which include the changes in the current corporate governance code of 2014 by Nigeria Securities and Exchange Commission and the IFRS adoption in 2012. Some of the findings of these studies may not be relied upon since the studies have been taken over by the changes.

Similarly, most of the studies on the AC and FRQ used the DA as measures of the FRQ or earnings quality ranging from the Jones Model (1991) (Baxter & Cotter, 2009; Chi-Chi & Friady, 2016; Klein, 2002; Krishnan et al., 2011; Hamdan, Mushtawa & Al-Sartawi, 2013; Moses et al., 2016) and the modified Jones model by Dechow and Dichev (2002) (Al-Maqoushi & Powell, 2017; Bajra & Čadež, 2018;

Jatiningrum, Abdul-Hamid & Popoola, 2016; Lara, Osma, Mora & Scapin, 2017; Lehmann, 2016; Lennox, Wu & Zhang, 2016). For that reason, this study has, in addition to the accrual model, adopted an income smoothing model, using the Eckel Model (1981).

The reason for the choice of income smoothing and discretionary accruals as measures of FRQ was a result of the fact that income smoothing has appeared to be a common practice by firms in many countries of the world (Dechow et al., 2010). Furthermore, it has been argued that firms preparing their financial statements under the IFRS exhibit significant increases in income smoothing and aggressive reportage of accruals (Ahmed, Neel & Wang, 2013; Capkun & Collins, 2018; Chen, Tang Jiang & Lin 2010; Hail & Wysocki, 2010; Kaserer & Klingler, 2008). This is because, the adoption of the IFRS gives managers, more or less, a chance to manipulate earnings, which is evidenced through the application of fair value estimates that is performed by management who can use their discretion to manipulate income to costume their desires (Hassan, 2015; Kaserer & Klingler, 2008). This is affirmed by Ozili (2015) who contended that listed banks in Nigeria smooth reported earnings over time throughout the periods of voluntary IFRS adoption and suggested that IFRS adoption reduces the reliability of loan loss provisions. However, prior studies considered profit smoothness to be an indicator of lower FRQ since it is another form of artificial earnings manipulation (Dechow, Ge & Schrand, 2010; Gaynor, Kelton, Mercer & Yohn, 2016; Yang, Tan & Ding, 2012). Accordingly, earnings manipulation and creative accounting are prevalent phenomena in Nigeria (Hassan, 2015). In addition, the issues of Cadbury, African

Petroleum PLC, and some bank failures in Nigeria, as highlighted above, were as a result of the prevalence of income smoothing practices (Akenbor & Ibanichuka, 2012; Sanusi & Izedonmi, 2014). Thus, in light of the above issues, it was expected that choosing these FRQ metrics would ensure high construct validity and considering the period of the study commencing from the effective date of the IFRS adoption by the Nigerian listed companies.

To provide better understanding on the relationship between the AC and FRQ, this study did not rely on a simple linear or direct relationship between the AC and FRQ, but rather, it also included a mediating variable „audit quality“. The reason for the choice of audit quality as the mediating variable on the relationship between the AC and FRQ is that high quality audits provide greater assurance in the financial reporting processing (DeFond & Zhang, 2014; Gaynor et al., 2016). This means that, the AC demands greater assurance from the external auditors to ensure the effective oversight of financial reports and to safeguard their capital reputation (Boo & Sharma, 2008; Cohen, Krishnamoorthy & Wright, 2002; Marini, Rohana & Keshab, 2016). Therefore, AC enhances audit quality in the demand for greater audit assurance and in return, the audit quality improves the FRQ by increasing the credibility of the financial reports (DeFond & Zhang, 2014).

Thus, to reflect the above arguments in the mediation model, Wu and Zumbo (2008, p. 379) contended that *“a simple mediation model exists when the predictor variable is premised to cause the mediator and, in turn, the mediator causes the dependent variable”*. Thus, the mediation effect of audit quality can be based on the

complementary effect hypothesis which suggests that the AC is expected to enhance audit quality which, subsequently, enhances the FRQ. This assumption indicates that external auditors contribute to the monitoring of the FRQ provided by the AC. The complementary effect hypothesis explains the demand aspect of the audit which is linked to the agency theory which presumes that audit services are required to lessen agency conflicts ascending from the interest of equity holders and managers (DeFond, 1992; Francis & Wilson, 1988; Watts & Zimmerman, 1983).

It was because of the foregoing statements that the researchers considered it of paramount importance to focus on the mediating effect of audit quality and AC on FRQ. However, studies have been conducted on the relationship between the AC characteristics and FRQ. For instance, in Australia, Bepari and Mollik (2015) found a positive significant association between AC meetings and FRQ; whilst in the US, Miettine (2008) reported a negative significant influence between AC meetings and quality of financial reporting. In India, Mishra and Malhotra (2016) found a positive significant correlation between AC size and FRQ. On the contrary, Leong, Wang, Suwardy and Kusnadi (2015), in Singapore, revealed a negative significant association between AC size and FRQ. In Malaysia, Marzuki, Wahab and Haron (2016) showed that AC independence is positively associated with FRQ and Mohammad, Wasiuzzaman and Salleh (2016) revealed a positive significant influence between AC financial expertise and quality of financial reporting. Yet, some of these studies reported insignificant relationships between AC characteristics and FRQ (Abata & Migiro, 2016; Abdullah & Ku-Ismail, 2016; Nelson & Jamil, 2012). These mixed findings make the direction of these relationships illusive, and to

the best of the researcher's knowledge, these inconsistencies of the findings have still not been resolved. Therefore, there is a need to study this relationship in the Nigerian context that has a unique set of AC characteristics which consists of representatives from shareholders and directors.

In view of the above, there is a need to conduct a study with a view to fill all the gaps that exist in the literature. This study, therefore, has focused on the effect of AC characteristics on FRQ and examined the mediating effect of audit quality on the relationship between the AC characteristics and the quality of financial reporting of the listed companies in Nigeria.

1.4 Research Questions

To find a solution to the research problems, a study has been conducted to answer the question of how audit quality mediates the relationship between AC characteristics and FRQ of listed companies in Nigeria. Specifically, this study has looked at the following questions:

- i. Do the audit committee characteristics influence the FRQ of the listed companies in Nigeria?
- ii. Do the audit committee characteristics influence the audit quality of the listed companies in Nigeria?
- iii. Does audit quality affect the FRQ of the listed companies in Nigeria?

- iv. Does audit quality mediate the relationship between the AC characteristics and the FRQ of the listed companies in Nigeria?

1.5 Objectives of the Study

The main objective of this study is to examine the mediating effect of audit quality on the relationship between AC characteristics and FRQ of listed companies in Nigeria. Thus, the specific objectives were;

- i. To determine the influence of the audit committee characteristics on the FRQ of the listed companies in Nigeria;
- ii. To examine the effect of the audit committee characteristics on the audit quality of the listed companies in Nigeria;
- iii. To determine the effect of audit quality on the FRQ of the listed companies in Nigeria; and
- iv. To examine the mediating effect of audit quality on the relationship between the AC and the FRQ of the listed companies in Nigeria.

1.6 Scope of the Study

The study covered the period of five years from 2012 to 2016. The choice of the period (2012 to 2016) was as a result of the review of the SEC Code of CG (2003) effective from 2011. The data was purely from a secondary source through the annual reports of the listed firms in Nigeria. The variables of the study included AC characteristics, being the independent variables. The proxies of which were AC size,

AC independence, AC meetings, AC expertise, female AC members, and AC tenure. The dependent variable was represented by the FRQ proxied by the income smoothing models from Eckel (1981) and accrual measures by Kothari, Leone, and Wasley (2005). The reason for the adoption of multiple models was due to the fact that the use of a single model to determine the quality of earnings is not sufficient (Chen, 2010). However, both of the models have similar outcomes because artificial income smoothing and discretionary accruals have negative consequences on FRQ. Perhaps, the conclusion derived from the two models would not be misleading since they are indicators of lower earnings quality. However, the mediating effect of audit quality on the association between AC and FRQ has also been determined in this study.

1.7 Significance of the Study

This study entitled „AC characteristics and FRQ: the mediating effect of audit quality“ will contribute tremendously in the following manner:

1.7.1 Literature Significance

There is a lot of evidence on the impact of AC characteristics on FRQ around the globe, for example, some studies examined the relationship between AC characteristics and FRQ (Haji & Anifowose, 2016; Zgarni, Hlioui & Zehri, 2016; Bin-Ghanem & Ariff, 2016; Moses et al., 2016), audit quality and FRQ (DeFond & Zhang, 2014, 2016; Nawaiseh, 2016), and the joint impact of AC and audit quality on FRQ (Ruhaida, 2011; Saleem & Alzhobi, 2016; Bamahros & Wan-Hussin, 2015). Other studies for instance, Zgarni et al. (2016) used Big 4 auditors, audit

tenure, and audit industry specialisation to moderate the association between AC and EM. Jintawattanagul, Pichetkun and Visedsun (2016) studied the mediating role of the accruals quality on the AC attributes and the cost of equity listed firms in Thailand. However, there is limited evidence from the prior literature that empirically examines the mediating role of audit quality on the relationship between the AC characteristics and the FRQ of the listed companies in Nigeria. For example, studies on corporate governance in Nigeria, such as Miko (2016), consider the interaction of institutional shareholdings on the relationship between three attributes of AC (size, independence, and financial expertise). Consequently, this study introduced audit quality to mediate the relationship between AC characteristics and FRQ. Thus, it is the first of its kind to the best of the researchers' knowledge that examines the mediating effect of audit quality on the relationship between the AC characteristics and the income smoothing behaviour of firms. Therefore, a mediation analysis will provide a better explanation about how the influence of AC affects audit quality and, in return, affects FRQ.

This study, therefore, serves as evidence for further research in this area to use the empirical finding and discuss its implication from the Nigerian perspective. The study also contributes to the debate of the mixed findings in the existing literature on the relationships between AC characteristics proxied by AC size, AC independence, AC meetings, AC financial accounting experts, AC legal experts, female AC members, AC stock ownership, AC tenure, AC chair, and the FRQ. Consequently, the study provides additional evidence for future research. Additionally, as highlighted earlier, several studies have been conducted on the relationship between

AC characteristics and FRQ. In addition, the study has determined the direct relationship between AC characteristics and FRQ, AC characteristics and audit quality, and audit quality and FRQ; then, it was followed by the indirect relationship. Each of these relationships adds value to the agency theory, resource dependence theory, institutional theory, signaling theory, and feminist theory that underpin the variables of the study because of the inclusion of a new mediator (audit quality). The mediating effect has enabled the study to compare the direct relationship and indirect relationship of these variables using audit quality as a mediator. This has not been provided by prior studies using the same variables. However, AC has been considered as an independent variable because it is an effective corporate governance oversight mechanism that has a disciplining effect on the manager's discretion in the estimation of accounting numbers.

Furthermore, the study also includes some of the AC expertise (financial accounting experts and legal accounting experts) variables and female AC members that were given little attention by previous studies in Nigeria. More so, according to Fatile and Ejalonibu (2016), the issue of gender is of considerable attention in Nigeria today and is concerned with the notion of equity. In light of the above, the Nigerian legislative body, in 2011, had proposed a bill for gender and equal opportunities for women. This was done with a view to address the issue of gender equality that has been a debatable topic all over the world (Ekpe, Eja & John, 2014). The above-mentioned facts stimulated the researcher to include female AC members as one of the predictor variables. This is because the bill clearly established a clause demanding a minimum of 35 per cent participation of women in offices, positions,

and appointments in both the private and public sectors (Gender and Equal Opportunities Bill, 2011). The findings of the study will serve as part of the empirical evidence that the regulators can use in formulating policies on gender related issues in Nigeria. Additionally, Farber et al. (2016); Liu et al. (2014); Abernathy et al. (2014); and Krishnan et al. (2011) suggested that the composition of directors with all forms of expertise enhances FRQ. In view of the above, this study has included two forms of AC expertise (financial accounting and legal expertise). However, legal experts have been included because they serve as effective monitors rather than signals to FRQ (Krishnan et al., 2011).

1.7.2 Practical Significance

The findings of this study are expected to be useful to the regulators, practitioners (auditors and forensic accountants), and board of directors who are responsible for promoting the oversight of companies. Thus, reducing the chances for management to engage in accounting manipulation. In the same vein, it will also serve as a basis for the formulation of laws and policy implications. For instance, it has been argued that the major challenge that Nigeria is facing about corporate governance is the inability to harmonise the various corporate governance codes (Aina & Adejugbe, 2015). In this regard, the outcome of the study is relevant to the authorities, such as policymakers and regulatory agencies, CBN (regulating banking sector), NAICOM (for insurance companies), PENCOM (regulating the pension managers), NCC (regulating telecommunications in Nigeria), and FRCN (responsible for assurance of good corporate governance in Nigeria). Each of these agencies has a distinct code with some peculiar differences and conflicting statements. Therefore, the findings of

this study will be one of the sources that the regulators will use in policy implementation. For example, the FRC recently established a rule called Rule 2(c) in 2016 mandating AC chairs to have financial accounting expertise. However, a Federal High Court in Nigeria overruled the FRCN rule in January 2018 on the grounds that it is contrary to the provision of the CAMA (2004) and the SEC Code (2011) (Egwuatu, 2018). This is because CAMA (2004) and the SEC Code do not require AC chair to have financial expertise. This study incorporates the AC chair as one of the AC attributes to be examined. Thus, the outcome of the empirical findings will serve as a basis for addressing this debating issue.

Furthermore, the regulators will also better understand the impact of the mediating role that audit quality can play in enhancing the effectiveness of the AC to mitigate EM thereby improving the financial reporting process. A mediation analysis helps to better understand whether audit quality complements (complementary hypothesis) the AC functions on the FRQ. The outcome of the mediation may either be a full mediation or partial mediation. As suggested by Baron and Kenny (1986) and Holmbeck (1997), a full mediation exists when the mediator eliminates the impact of the predictor variables on the dependent variable; whilst a partial mediation exists when the mediator substantially reduces the impact of the predictor variables on the dependent variable. Consequently, a partial mediation of audit quality will mean that audit quality plays a complementary role in the influence of AC on FRQ. Whilst a full mediation may indicate that without audit quality, the AC alone cannot perform the oversight function on the FRQ. However, this assumption can only be made through mediation analysis not moderation, because, a moderator clarifies when a

predictor variable most strongly or weakly causes a dependent variable; whereas, a mediator clarifies the procedure of why and how a cause-and-effect occurs (Baron & Kenny, 1986; Wu & Zumbo, 2008). Therefore, this study is expected to be useful to regulators, investors, and policymakers particularly in light of the current argument by prior studies about the controversial ceremonial and symbolic functions of the AC rather than the effective monitor it is expected to be (Yu et al., 2016; Wu et al., 2015; Cohen, Gaynor, Krishnamoorthy & Wright, 2007).

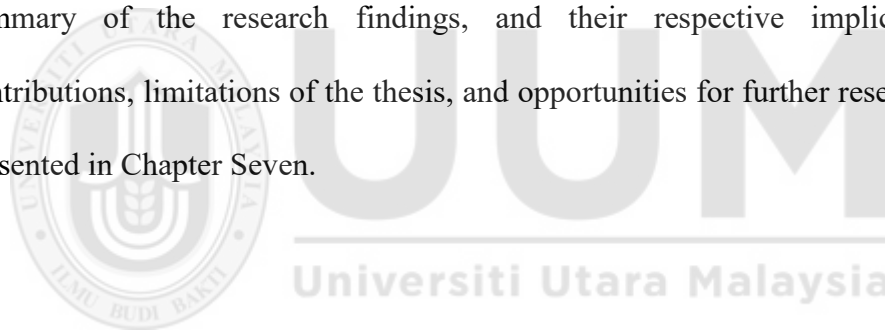
The study also serves as a guide to the existing and potential investors as well as financial analysts who are also the direct users of the financial statements. The findings of study will enable the shareholders to understand the implications of each variable in enhancing the credibility and reliability of the financial disclosure which, in turn, will improve the confidence of both potential and existing investors.

1.8 Organisation of the Study

This study is structured into seven chapters, whereby Chapter One is the introduction, which includes an introduction of the chapter, the background of the study, problem statement, research questions, objectives of the study, motivation of the study, the scope of the study, significance of the study, and plan of the study. Chapter Two contains the literature review of the study which provides the introduction, the financial reporting concept, financial reporting in Nigeria, concept of AC, AC and FRQ, measures of FRQ, review of previous studies on AC and earnings quality, and the theoretical framework. Chapter Three focuses on the theoretical framework and hypotheses development. Chapter Four provides the

research methodology which consists of the introduction of the chapter, the research method and design, data analysis technique, variable measurements, and model specifications of the study.

Chapter Five and Six are dedicated to the presentation of the results and discussions of the four questions addressed in this study. The chapters present the results and analyses of the influence of AC characteristics on the FRQ of the listed companies in Nigeria, the effect of AC characteristics on audit quality, the effect of audit quality on FRQ, and the mediating effect of audit quality on the relationship between AC characteristics and FRQ. Finally, Chapter Seven provides the concluding remarks, summary of the research findings, and their respective implications. The contributions, limitations of the thesis, and opportunities for further research are also presented in Chapter Seven.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter contains a review of previous studies on AC and FRQ. It discusses the concept of FRQ, FRQ in Nigeria, the importance of FRQ, and measures of FRQ. The chapter also provides a discussion on the concept of corporate governance, corporate governance in Nigeria and concept of AC. Previous studies on AC characteristics and FRQ are also reviewed in this chapter. This is followed by AC characteristics and audit quality, audit quality and FRQ, mediating effect of audit quality on the link between AC characteristics and FRQ, and finally, the summary of the chapter.

2.2 Concept of Financial Reporting

Financial reporting is a dual operation in which the providers of the financial reports make them available to the users, who apply them with the anticipation that the financial reports will aid them to improve their economic decisions (Tasios & Bekiaris, 2012). The goal of financial reporting is to prepare financial reports concerning the company that is valuable to the stakeholders when making decisions in their positions as capital providers (IASB) (2008, p.12). To achieve this aim, financial reports ought to broadcast information concerning the firm's economic resources, dues on those resources, the dealings and other procedures, and the conditions that alter them. This is because financial disclosure and information are hypothetically imperative means for management to communicate firms' performances and governance to external investors (Healy & Palepu, 2001). Hence,

establishing a high quality of economic reporting disclosure is imperative since it will absolutely affect stakeholders in creating investment, credit, and analogous resource allocation decisions in promoting overall market productivity (Al-Rassas, 2015). In that regard, FRQ is a requirement for an effective investment portfolio since various people and groups make their resource allocation pronouncements based on financial evidence (Healy & Palepu, 2001).

According to Biddle, Hilary, and Verdi (2009, p. 3) FRQ is defined as “*the precision with which financial reporting communicates information concerning the firm’s operations, in particular its expected cash flows, that inform shareholders*”. Tang, Chen, and Lin (2008) define FRQ as the degree to which the financial accounts provide true and fair revelations concerning the basic performance and financial situation. Thus, this study has considered FRQ as a full and transparent economic disclosure that is prepared not to confuse or mislead users (Jonas & Blanchet, 2000).

The agency theory posits that, due to the estrangement between managers and owners, investors need to be safeguarded as managers will possibly have agendas distinct from the investors and, consequently, might not always perform in the owners’ finest interests (Jensen & Meckling, 1976; Fama & Jensen, 1983). For that reason, there is a need to engage the service of independent auditors to provide their independent opinions on the truth and fair view of corporates’ financial reports. This will be an option available for monitoring processes that can enhance the financial reporting which, consequently, will raise investors’ confidence about the firm performance and traded securities that reflect the company image (Islam, Islam & Islam, 2010; Johl, Kaur & Cooper, 2015).

Invariably, information disclosure can help mitigate principal-agent conflicts and costs (Namazi, 2013). Since, high-quality information would likely reduce informational asymmetry problems between the firm and its investors, and hence, would decrease the agency costs (Bushman & Smith, 2001). However, there is no consensus as to what constitutes FRQ. For instance, Jonas and Blanchet (2000) disclosed that auditors, AC members, and management are making great efforts to provide a definition of the quality of financial reporting. Kothari (2001, p. 91) stressed that the quality of financial evidence and transparency of an information system or accounting standards are normally used interchangeably. A specific explanation of quality or transparency that all and sundry agree on has been elusive. Hence, the quality of a financial material report, however, is prejudiced, and not just by the value of the accounting standards. But likewise, by other conventional actors, such as corporate governance, the legal structures, and the presence and implementation of laws concerning investor safety and disclosure ethics that influence the demand for and the supply of financial information (Kothari, 2001).

Previous studies have often considered the conservatism part of accounting quality, i.e., the level in which losses are combined into incomes on a timely (Ball, Robin & Wu, 2003; Guay & Verrecchia, 2006). As FRQ is an extensive perception and multi-dimensional, it is imperative to extend the practical results outside the conservatism dimension (Burgstahler et al., 2006).

2.3 Financial Reporting in Nigeria

The evolution of financial reporting in Nigeria has a link with the British financial system. Thus, being the Nigerian former colonial mater, most of the laws and policies in Nigeria were derived from the British (Olamide & Temitope, 2016). Similarly, the advancement of accounting standards in Nigeria is attributed to the Association of Accountants of Nigeria (AAN). The AAN was established in 1960 whilst it was legitimately recognized in 1965, under the National Parliament Act number 15 of 1965. The primary responsibility of the body was to regulate the accountancy profession in the country. The AAN (now Institute of Chartered Accountants of Nigeria, ICAN) was said to be in charge of the creation of the NASB before it was taken over by the federal executives (Josiah, Okoye & Adediran, 2013; Olamide & Temitope, 2016).

The Nigeria Accounting Standards Board (NASB) was provided in 1985. After that, the NASB Act was established by the NASB in 2003 under the recommendation of the federal government. The Act was ratified by the Nigerian National Assembly with representatives from each accounting professional body, federal ministry of finance, and all regulatory agencies in Nigeria (NASB Act, 2003). The major function of the Board is to draft the standards to be employed when preparing financial reports and to enhance the acceptability and adoptability of the same standards by preparers and users of financial reports. This is to ensure strict compliance with the accounting standards established and reviewed by the Board as well as to impose sanctions on any noncompliance as may be prescribed by the Board. In light of the above, the Statement of Accounting Standards (SAS) was

established by the Board, and has served as the local standards used by companies in the preparations of financial statements.

Furthermore, the internationalisation of economic trade and the harmonisation of international accounting standards have led to the advent of the International Financial Reporting Standards (IFRS) as well as the International Public-Sector Accounting Standards (IPSAS). Nigeria has joined the international community by adopting the IFRS and IPSAS. The adoption started with private companies in January, 2012, followed by the adoption of the IPSAS by the public entities in January, 2016 (Ocansey & Enahoro, 2014; Saidu & Dauda, 2014). In view of the above, the NASB Act 2003 and its standards, SAS, were taken over by the FRCN Act 2011 and IFRS, respectively. The functions of the FRCN are similar to those of the NASB with some little modifications or improvements. These include, amongst others, the establishment and issuance of accounting and financial reporting standards to be employed when preparing the financial reports of public firms, and they appraise, enhance, and ensure strict adherence with the accounting and reporting standards supplied by the council. It also admits announcements of non-compliance with the approved standards from all users of financial reports (FRC Act, 2011). Therefore, any company that fails to comply with the standards, if it is brought to the attention of the FRC, is punishable by imprisonment or a fine on each of the principal officers of the company as well as the external auditors.

Similarly, the adoption of the IFRS has brought about some changes in the reporting system in Nigeria. For instance, the IFRS discusses in detail the qualitative

characteristics of FRQ; some of these aspects were lacking in the Nigerian SAS. A statement of the changes in equity and significant management estimates, disclosure of minority interest in income statements, substantive standards on borrowing cost, substantive accounting for agriculture, identifications of primary and secondary segments, and substantive standards for intangible assets except for goodwill were completely absent in the Nigerian SAS (Ocansey & Enahoro, 2014). Another significant change by the IFRS to the Nigerian SAS was the recognition of the valuation of assets and liabilities under fair value estimates. Several studies argued that adoption of the IFRS enhances the transparency of financial reports and provides higher quality information to investors (Adekunle & Taiwo, 2013; Ocansey & Enahoro, 2014).

Other sources of financial reporting practices in Nigeria include, the Companies and Allied Matters Act 1990 (CAMA), amended in 2004, and the Banks and Other Financial Institutions Act 1991 (BOFIA). The CAMA was a byproduct of the British legal system originating from the Joint Stock Company Act 1885. The Act provides the establishment of the Corporate Affairs Commission (CAC) that is responsible for the formation, incorporation, and registration of companies in Nigeria. The Act also provides several provisions on corporate laws, accounting, auditing practices, and the establishment of companies' directors, ACs, preparations of financial reports, auditors, disclosure, and secretaries. Similarly, Section (35) of the CAMA mandates every company to provide a Memorandum and Articles of Association that will serve as its constitution.

Studies in Nigeria on FRQ include Uadiale (2012) who examined the corporate governance and EM of the listed banks. He employed the survey method and examined board independence and AC financial literacy for the single period of 2011. Hassan and Ahmed (2012) employed 60 firm-year observations and then examined the influence of corporate governance and EM on the financial performance of manufacturing firms. Davies, Gberegbe, Ofurum and Egbe (2016) examined the corporate governance and earnings quality of the listed banks in Rivers State only, and Ani (2014) studied the fraudulent financial reporting of the listed companies in Nigeria. She used a survey method and took a sample of the listed companies from one state in Nigeria. However, none of the above studies has extensively explored the influence of AC characteristics that are believed to play a significant role in FRQ.

2.3.1 Regulatory Framework on AC and External Auditors in Nigeria

In Nigeria, Section 359 (3) and (4) of the CAMA (2004) and the SEC Code (2011) mandate every public company to establish an AC. The committee has the responsibility to ensure the integrity of the entity's financial statements, confirm that the regulatory and legal requirements are complied with, perceive the independence and qualifications of the external auditors, and assure the entity's internal and external audit functions. It is also meant to establish an internal audit function and ensure that there are other sources of gaining adequate assurance of consistent review or evaluation of the internal control system in the entity. It also supervises the management's process for the recognition of significant fraud risks within the

company and ensures that reasonable deterrence, detection, as well as reporting devices are in place.

In addition to the AC statutory functions, the SEC Code (2011) provides that the AC is expected to aid in the oversight of the integration of the entity's financial requirements. Furthermore, it further ensures the progress of a comprehensive internal control outline for the firm, and obtains assurance and reports, yearly, in the financial report, on the effectiveness of the entity's internal control system. At least, on a yearly basis, the committee is mandated to revisit and assess a report by the internal auditor explaining the quality and strength of the internal controls as well as any issues or authorisations for improvements raised as a result of the most recent internal control assessment of the firm (SEC Code, 2011). The members also debate on procedures and policies with reference to risk valuation, and also, meet on a regular interval with management, and internal and external auditors. In addition, they appraise with the external auditors, matters relating to the audit scope, boundaries or difficulties arising and solutions to the same.

2.3.1.1 Composition of AC in Nigeria

Section 359(6) of the CAMA (2004) recommends that there should be equal representation of shareholders and directors. It requires that every public company should have an AC that consists of a maximum of three shareholders and three directors. Furthermore, the SEC code of CG (2011) stipulates that there is at least one independent non-executive director on the board. However, there is no such provision about AC independence, which is contrary to the global best practice. In

addition, the SEC Code (2011) requires that the AC shall meet at least four times in a year. The chairman of the committee shall develop an agenda for the meetings by having consultations with other members of the committee. Furthermore, the number, time, and duration of meetings shall be enough to ensure that the committee achieves its objectives. It is observed that the Code also recommends that the AC members should have basic financial literacy. It also requires that at least one member of the AC shall have experience in accounting or financial management. More so, Section 359 (4) of the CAMA (2004) requires that the AC shall consist of equal representation of directors and shareholders. This uniqueness of the AC formation in Nigeria makes the committee to be more flexible as the chairmanship of the committee could be handled by either a director or a shareholder. It has been argued that existence of shareholders in the AC can erode their monitoring ability because this may compromise their independence in the decision-making process (Ahmed, 2017).

Similarly, Section 357 (1) of the CAMA (2004) stipulates that every company shall appoint an auditor at each annual general meeting. The auditor(s) is/are required to examine the accounts and ascertain whether the financial evidence obtained in the annual report is consistent with the ethical and regulatory provisions (CAMA, 2004). In addition, SEC Code (2011) requires that external auditors should be retained for no longer than ten years consecutively. Thereafter, they shall be disengaged after ten years but may be re-engaged after another seven years since their disengagement. However, it has been argued that exceptionally long tenure of auditors might compromise their independence because the longer they stay as auditors of the same

firm, the more likely it is that they will befriend the managers and thus, become less critical of the accounting issues (Carey & Simnett, 2006).

2.4 Importance of Financial Reporting Quality

Financial reporting quality is a subject that, for many years, received serious attention and became a debatable issue for investors, regulators, as well as researchers (Hermans, 2006). The quality of financial reports can be assessed from the financial statements prepared by the management concerning the reporting entity. The financial statements are a major means through which companies communicate to their users their financial results as well as their position. Financial analysts, investors, government authorities, and creditors, amongst others, make use of financial statements to make rational decisions. Thus, supplying high quality financial reporting disclosure is important since it will positively influence the capital providers and other users in making investment, credit, and identical resource allocation decisions in enhancing overall market efficiency (IASB, 2006; IASB, 2008). For instance, managers, boards of directors, auditors, and audit committees benefit from producing high quality financial reports; thereby, assisting in decreasing the cost of capital by minimising information asymmetry, and improving high disclosure and high earnings quality that would result in the attraction of potential investors (Aboody, Hughes & Liu, 2005).

It has been argued that the quality of the financial information the stakeholders receive is a function of both the quality of (accounting) standards guiding the disclosure of accounting information and the regulatory enforcement or corporate

application of the standards in an economy (Kothari, 2001). It, therefore, becomes a collective responsibility to both regulators and standard setters to formulate rules and laws that can be used in enhancing the quality of reported financial information which will positively improve capital market effectiveness. Similarly, the quality of financial reporting is an issue of serious concern to stakeholders. This is because of its influence over economic decisions which, in turn, can have a great impact on the society as witnessed by the sequence of corporate failures (e.g., Enron, Parmalat) and collapses of financial institutions (Lehman Brothers, Fortis, AIG) and by the economic environment derived from the economic meltdown (Tasios & Bekiaris, 2012).

Previous literature on financial reporting concentrated on different aspects that have direct influence over the quality of the financial (Abbott et al., 2016; Achim & Chis, 2014; Ball et al., 2003; Burgstahler et al., 2006; Daske & Gebhardt, 2006; Kothari, 2001; Tasios & Bekiaris, 2012; McDaniel, Martin & Maines, 2002). For instance, Ball et al. (2003) argued that incentives seem to dominate accounting standards as a determinant of financial reporting in some Asian countries. They found that, for countries struggling to achieve a higher quality of financial reporting, reforming managers and auditor incentives are more important than mandating foreign accounting standards. They contended that high-quality standards do not assure high-quality financial reporting. They, therefore, emphasised the need for quality financial reports.

It was also revealed that within the European Union, private firms disclose lower levels of financial reporting quality, and those active legal systems are correlated with higher financial reporting quality in both private and public firms. It was further established that private and public companies react differently to institutional factors, such as outside investor protection, book-tax alignment, and capital market structure. Hence, it was found that firms' reporting incentives designed by market forces and institutional factors are two important determinants of accounting quality (Burgstahler et al., 2006). Additionally, disclosure quality has significantly increased in three European countries (Germany, Australia, and Switzerland) under the International Financial Reporting Standards (IFRS) in both types of companies, those which have voluntary and mandatory adoption. Hence, the quality of financial reports has significantly increased with the IFRS adoption (Daske & Gebhardt, 2006). Similarly, Beest, Braam and Boelens (2009) documented that the measurement technique employed in their study is a valid and reliable method in assessing the quality of financial reports. Since, it contributes in enhancing the quality of financial reporting information, following a request from both the IASB and the FASB (2008) to make the qualitative characteristics operationally measurable.

Furthermore, McDaniel et al. (2002) found that financial experts and financial literates are different in evaluating financial reports. They document that the experts' assessments of quality financial reporting are more strongly correlated with their evaluations of the attributes that are fundamental to reporting quality (e.g., relevance). In addition, they contended that literates are more probable than experts

to identify concerns on reporting treatments for commercial activities which are noticeable in the business media or are differentiated by their non-recurring feature, whilst experts are more probable to raise concerns about reporting treatments for less noticeable recurring activities. Finally, they recommend that incorporating financial experts on audit committees is likely to transform the composition and attention of the committee's discussions about the quality of financial reporting, which may likely influence the committee's overall assessment of the quality of a firm's financial reports. However, Chen et al. (2010) affirmed that the majority of the FRQ indicators (absolute discretionary accruals, managing earnings toward targets, and accruals quality) improved after the IFRS adoption in 15 European Union nations. This indicates less earnings management, lower discretionary accruals, and high accruals quality. On the contrary, public companies were involved in income smoothing and large recognition of losses in a less timely manner after the IFRS adoption.

Choudhary, Merkley and Schipper (2016) employed two qualitative attributes of financial reporting quality (immaterial error and material error associated with restatement). They observed that considering the relevance of equity valuation, investors consider immaterial errors relevant, and that with the valuation impact, it was smaller than those associated with restatements disclosed. Considering the predictive ability for reporting quality, immaterial errors are informative about the financial reporting reliability. Since, they signify an increased ability for future material errors, immaterial errors, and material weakness assessments. The predictive propensity of immaterial errors for quality of reporting is not qualitatively

differential from that of material errors. This is in line with the assumption that immaterial errors are informative about reporting quality.

Despite the emphasis on the importance of high FRQ by regulators and standard setters (e.g., FASB & IASB 2008), the major problem found in prior studies is how to operationalise this quality (Beest et al., 2009). Due to its contextual specification, an empirical evaluation of FRQ unavoidably includes alternative choices amongst its multiple components (Daske & Gebhardt, 2006; Dechow & Dichev, 2002). Since different user groups will have differential alternative choices, perceived quality will be aberrant amongst the constituents (Beest et al., 2009). Consequently, measuring quality directly seems problematic (Botosan, 2004). Thus, some of the factors that influence FRQ include the accounting standards that guide the management and auditors in preparing and examining the financial reports, respectively, the management incentives, and the institutional factors including the legal system, capital market forces, and investor protection amongst others (Beest et al., 2009; Burgstahler et al., 2006; Ball et al., 2003; Kothari, 2001).

Various codes and regulations have also been put in place to guide management and external auditors in enhancing the quality of financial reports, globally. For instance, there are the Sarbanes-Oxley Act (2002) in the US, Code of Accounting Practice and Financial Reporting (2011) in New Zealand, Financial Planning Association Code Professional Practice in Australia (2013), Code of Practice on Local Authority Accounting in the United Kingdom (2015) amongst others. The objectives of the above mentioned codes are to improve financial reporting practices which, in turn,

enhance financial reporting quality all over the world. However, the concern about the quality of financial reports and its association with audit quality has been increasing over time since the collapse of some high-profile companies due to financial scandals committed by their managers. For that reason, regulators and investors have often questioned the job of both audit committees and external auditors because the audited financial reports have been proven to be false and misleading in many of the recent financial scandals (Alves, 2014). Therefore, there is a need to apply a more advanced method to examine the causal effect of the AC and audit quality in relation to FRQ in order to determine what is really going on.

2.5 Measures of Financial Reporting Quality

Despite the emphasis given by both the FASB and IASB on the role of high FRQ, one of the major hitches found by prior researchers is how to operationalise and determine this quality (Beest, Braam & Boelens, 2009). This is due to its context-specificity, which makes its empirical assessment inevitably include alternative choices amongst a lot of constituents (Daske & Gebhardt, 2006; Dechow & Dichev, 2002). This is because, different categories of users may partake of different predilections, apparent quality will be amongst the divergent constituents. Again, the participants inside a user group may also observe the importance of similar evidence differently, given its framework. Because of this framework and user-specificity, determining quality, directly, appears to be problematic (Botosan, 2004). As a result of this, a lot of researchers measured FRQ, indirectly, by relying on the characteristics that are thought to influence FRQ, such as EM, financial restatements, income smoothing, and timeliness (Beest et al., 2009).

The quality of financial reports is not a measure that can be simply computed; because, it may not be observed, directly, since it is based on the presumption of the stakeholders. Each class of handlers has its own anticipation and presumption concerning what evidence is useful and of good quality (Achim & Chis, 2014). To assess FRQ, various predictors and approaches have been used. The most widely used methods, in prior studies, were the accrual models, value relevance models, earnings smoothing, earnings persistence and predictability, timeliness of reporting, earnings conservatism, and methods operationalising the qualitative characteristics (Achim & Chis, 2014; Barth et al., 2001; Beest et al., 2009; Burgstahler, et al. 2006; Ching, Teh, San & Hoe, 2015; Dechow & Dichev, 2002; LaFound & Watts, 2008).

2.5.1 Value Relevance

Financial information has a value relevance if it has an anticipated correlation with the market value of equity. Whilst accounting earnings is of relevance if it can make a difference on the decisions of the users" financial statements (Barth et al., 2001). When the two concepts are highly correlated, it indicates that changes in accounting information are equal to changes in the market value of the firm. It is presumed that earnings information provides relevant and reliable information (Nichols & Wahlen, 2004). Value relevance is a return-based approach that determines the extent in which earnings explain returns and serve as an indicator of the accounting information relevance. Consequently, if the information contribution of earnings to investors is discovered to be significant, then earnings should give back a considerable explanatory power in terms of market returns, which gives out a consideration of the returns/earnings correlation, known as the R^2 of the regression of

stock returns on earnings which measures the information contribution of earnings to relevant investors (Lev, 1989).

A lot of studies have been conducted to determine the usefulness of earnings in estimating accounting information relevance. For instance, Lev (1989); Ball & Brown (1968); and Amir (1996) emphasised that earnings usefulness can be obtained from the value of the correlations between stock returns and earnings, considering the returns/earnings correlation, i.e., R^2 contribution of the regression of returns on earnings. Barth et al. (2001) and Holthausen and Watts (2001) stressed the relevance of the value relevance and contended that the value relevance of financial information is derived when accounting numbers reflect information that the investors used in valuing the company's equity.

2.5.2 Persistence and Predictability

Predictability is the ability of earnings to predict itself (Francis, Lafond, Olsson & Schipper, 2004). Thus, earnings predictability indicates the potentiality of past earnings to predict future earnings. Because, if the earnings' predictivity increases, the present earnings information is assumed to be more beneficial in predicting future earnings and, consequently, the response coefficient increases (Lipe, 1990). Earnings persistence, on the other hand, is defined as the likelihood that an entity's level of earnings will recur in future periods (Nichols & Wahlen, 2004) Hence, persistent earnings are needed since they are sustainable and reoccurring (Francis et al., 2004). They viewed earnings persistence as the rate of change in the coefficient from the regression of current earnings on lagged earnings.

Persistence and predictability are distinct in the sense that predictability of earnings is a function of the mean absolute degree of the annual earnings' surprises, whilst the time series persistence of earnings indicates the autocorrelation in the firm's earnings (Lipe, 1990). Hence, earnings are said to be of high quality if they have a high level of persistence and have more predictability. It was contended that predictability and persistence may not be sufficient in determining high quality earnings. Since, there are instances whereby predictability and persistence may not be consistent, then volatile earnings may be of high quality in relation to high persistence, but low quality in relation to low predictability (Schipper & Vincent, 2003). As such, high persistence may be possible through managerial opportunistic behaviour or earnings management (Dechow et al., 2010). Therefore, the consequence of earnings management is poor quality. Then, poor quality is undesirable since it can mislead investors, thereby making them victims of the misallocation of resources.

2.5.3 Timeliness and Conservatism

Conservatism is defined as the differential verifiability desired for the recognition of profit or losses that brings about an undervaluation of net assets (Holthausena & Watts, 2001). It is based on the notion that accountants are to be cautious in the use of policies and estimations in a manner that the firm's earnings are not overstated and an entity's losses are not understated. Basu (1997) annotated conservatism as earnings that reflect 'bad news' more quickly than 'good news'. Whilst, timeliness reflects the timely inclusion of economic losses in accounting earnings. Lafond and Watts (2008) contended that information asymmetry between company insiders and outside equity investors brings about conservatism in financial statements which

reduces the manager's incentives and their capability to manipulate financial information and, consequently, reduces information asymmetry and the deadweight losses which information asymmetry can cause. As such, conservatism reduces managers' opportunistic behaviours and anchors managerial biases with its asymmetrical confirmability requirement (Watts, 2003). Conservatism exists because it reduces agency costs connected with information asymmetries and loss activities amongst the contracting parties as well as inability to authenticate the more informed parties' private information (Lafond & Watts, 2008).

Francis et al. (2004) opined that the major indicator for both timeliness and conservatism is stock returns. Whilst, conservatism is the ratio of the variability coefficients on negative returns to the ratio of the variability coefficients of positive returns in a reverse regression of income and returns. Timeliness is the R^2 of a reverse regression of earnings on returns. Thus, the difference between conservatism and timeliness is that the former reveals a distinctive ability of accounting earnings to represent economic losses (proxied by negative stock returns) against economic profit (proxied by positive stock returns).

Previous studies documented that conservatism reduces information asymmetry and constrains the managerial opportunistic behaviour on financial reporting (Watts, 2003; Bushman & Piotroski, 2006). Previous literature employed different measures to proxy for accounting conservatism, thus, the most frequently used amongst the methods are asymmetric timeliness (Basu, 1997; Ball et al., 2003; Roychowdhury & Watts, 2007) and market-to-book value (Ball et al., 2000; Givoly & Hayn, 2000; Roychowdhury & Watts, 2007). The empirical findings of these studies used

investments, institutions, contracts, current and future performance, and cost of equity as factors that influence accounting conservatism (DeFond & Park, 1997; Penman & Zhang, 2002; Francis et al., 2004). Most of the findings of these studies have recognized that accounting conservatism reduces information asymmetry between insiders and the shareholders and this will, invariably, reduce managers' opportunistic behaviours.

2.5.4 Accruals Measure

Accruals admit firms to account for expected revenues and expenses when they are earned or they are incurred, respectively. Hence, financial statements are mostly prepared under accrual bases. Accruals reflect expected future cash flows and outflows. It is the process of accounting that recognises assets or liabilities, returns, expenses, gains, or losses for amounts expected to be received or paid, usually in cash, in the future (FASB, Statement of Financial Accounting Concept No. 6). The main objective of the accrual is to assist investors in examining the firm's economic performance in a period using basic accounting ethics, such as the recognition of revenue and matching concept (Bissessur, 2008).

Since accrual accounting is guided by principles and standards. Then, the entities may need to comply with the standards, whilst managers are not necessarily interested in the information derived through the accrual method and such information is little used in practice (Alijarde, 2014). Previous literature has demonstrated the importance of accruals in determining the quality of financial reports (Dechow & Dichev, 2002; Francis et al., 2004; Beslic, Beslic, Jacksic &

Andric, 2015; Praag, 2001). Because, accrual model literature concentrates on the information disclosed in financial statements to determine the quality of the financial reporting (Burgstahler et al., 2006; Nichols & Wahlen, 2004; Healy & Wahlen, 1999).

It was argued that firms may use accruals to conceal poor present performance or to understate good present performance with a view to effectively save that for the future (Burgstahler et al., 2006). Thus, it was argued that financial misconduct is highly likely when it is expensive for outsiders to supervise the company's operations and managers (Amiram et al., 2018). Consequently, if financial statements are to portray management information on their performance then, standards allow managers to use their discretion on financial reporting. Since auditing is not perfect, managers take advantage of their experience about the entities and their opportunities to select accounting methods and estimates that suit the company's business economics, which can potentially increase the value of the accounting numbers (Healy & Wahlen, 1999).

Several studies recommended that accruals-based measures can possibly capture an entity's overall information quality (Francis et al., 2004; Ecker, Kim, Olsson & Schipper, 2006). The accruals can be classified into total accruals, which incorporate the discretionary and non-discretionary accruals components. Prior literature has described the use of total accruals as a proxy for earnings quality as a simple approach to assess the FRQ. Since, entities can have high accruals for lawful business purposes, such as sales. Then, a more sophisticated measure is desirable by partitioning the total accrual into discretionary and nondiscretionary components

(Dechow, Sloan & Sweeney, 1995). The nondiscretionary components follow business conditions, such as duration of the operating circle and growth; whereas, the DA reflect management choices.

Consequently, this study has used DA as a proxy of FRQ because prior studies argued that DA are a better measures of detecting earnings manipulation (DeAngelo, 1986; Dechow & Dichev, 2002; Dechow et al., 1995; Healy, 1985; Kothari et al., 2005). These models also are the most widely recognised and used in measuring the quality of financial reports. Consequently, empirical findings on the capability of the DA models to detect the accounting manipulations, most especially fraudulent financial reporting, are of great concern to regulators, auditors, analysts, researchers, and others who are interested in investigating earnings quality (Jones, Krishnan & Melendrez, 2008). The DA components of the total accruals are commonly extracted with the help of accrual models, such as the Jones Model (1991), modified Jones Model by Dechow et al. (1995), the extended modified Jones model by Yoon Miller and Jiraporn (2006), as well as the performance-matched model by Ashbaugh, Lafond and Mayhew (2003) and Kothari et al. (2005), and the most recent growth adjusted model developed by Collins, Collins, Pungaliya and Vijh (2017). The findings of these studies showed that managers used DA to increase or decrease earnings which indicate EM. Therefore, DA capture the deformity caused by the application of EM (Dechow et al., 2010).

2.5.5 Income Smoothing

Beidleman (1973, p. 653) defined income smoothing as “*the intentional dampening of variations about some level of earnings that is presently considered to be normal for a company*”. It is also defined as a mechanism employed by management to decrease the changeability of a stream of reported profit figures associated to some identified target stream by the manipulation of artificial (accounting) or real (transactional) variables (Koch, 1981). Similarly, Aflatooni and Nikbakht (2009, p 61) defined income smoothing as a “*means through which management makes use of discretionary accounting and management principles to reduce earnings variability*”. Francis et al. (2004) classified smoothing earnings as accounting-based earnings quality attributes.

The mechanisms used to smooth income figures are classified as either real smoothing or artificial smoothing. Real smoothing indicates managerial actions that are assumed to control basic economic procedures (Yang et al., 2012). Whilst, artificial smoothing is the use of accounting tools undertaken by management to smooth profit (Atik, 2009). Examples of real income smoothing instruments include shifting the cost from nominal expenditure to capital expenditure, timing of discretionary expenses, such as performing repairs, paying bonuses, and following research and development projects, amongst others. Artificial income smoothing comprises change in accounting policies, such a change from the LIFO to the FIFO valuation methods, and straight line methods to the reducing balance method of depreciation, amongst others (Barnea, Ronen & Sadan, 1975). Hence, it can be argued that flexibility when choosing accounting methods at times encourages

managers to select accounting procedures or to change adopted ones to minimise, maximise or smooth profit figures (Atik, 2009).

Furthermore, Eckel (1981) categorised income smoothing as a natural and intentionally smoothed income stream. The natural smoothing according to him, results from an income producing process that generates a smooth income stream. On one hand, an intentionally smoothed stream arises from real smoothing or artificial smoothing procedures. On the other hand, real smoothed income happens when managerial actions are taken to architecture the revenue generating events of the firm to generate a smooth income stream. Artificially smoothed income occurs when managerial actions are performed to alter the entries to produce smooth profit streams.

Previous literature used different predictors to measure income smoothing. For instance, Beattie et al. (1994), Herrmann and Inoue (1996), and Moses (1987) used accounting choices as instruments for income smoothing. In this method, various firm-specific attributes encourage management to use accounting choices to smooth income, and thus, smoothing the behaviour varies across companies. Consequently, accounting changes are investigated as a smoothing device. They contended that smoothing income by accounting changes is correlated with the influence of the accounting change on the level of earnings. The factors that instigate these changes are called the smoothing variables (Albrecht & Richardson, 1990). These include the firm size, bonuses, choice of depreciation and amortisation method, intangible asset amortisation, pension cost, purchase and pooling method, inventory extraordinary

charges and credits, investment tax credit, and dividend income under the cost method of reporting a subsidiary.

The motives behind the accounting principle choices studied are to obtain evidence on the attributes that can influence management decisions (Beattie et al., 1994). Most of the studies that used accounting choices as drivers for smoothing found evidence to contend that the companies select accounting policies in such a way that they can smooth the reported profit over time. Therefore, one of the criticisms against this method is that it does not consider the presence of artificial income smoothing because of its deficiencies in the research design (Albrecht & Richardson, 1990).

Barnea et al. (1975), Graig and Walsh (1989), Godfrey and Jones, (1999) used income before extraordinary items to predict income smoothing. It was based on the argument that managers pretend to classify items which could be labeled as extraordinary in order to smooth ordinary income over time. Thus, flexibility in ascertaining what comprises ordinary operations enables managers to manipulate the operating income (Godfrey & Jones, 1999). Most of the above studies concluded that managers use extraordinary items to dampen the variations of the operating earnings. One of the criticisms against this method is that it takes into consideration firms that smooth their net income. As such, further research is needed by adopting multi-variable income smoothing models, which include different discretionary income smoothing approaches, that are applicable to management (Godfrey & Jones, 1999). More so, Aflatooni and Nikbakht (2010), Atik (2009), DeFond and Park (1997), Godfrey and Adi (2012), Shaw (2003), and Trisanti (2014) employed DA to predict income smoothing. Atik (2009, p. 600) categorised discretionary accounting changes

into five groups based on their natures. These included, changes in depreciation or the amortisation estimates, changes in depreciation or the amortisation approach, changes in capitalisation or expense policies, and changes in the method of inventory evaluation.

Furthermore, Eckel (1981) developed a model in which he classified a firm as an income smoother when the coefficient variation of its income (CVI) was less than the coefficient of the variation of its sales (CVS) (i.e., $CVI < CVS$ or $CVI/CVS < 1$). This was followed by the study of Albrech and Richardson (1990); Ashari, Koh, Tan and Wong (1994); Habib (2005); Etemadi and Sepasi (2007); and Yang et al. (2012). They viewed income smoothing in two perspectives (intentional and natural income smoothing). They used the coefficient of variations in measuring the variability of sales and income. Eckel (1981, p. 33) posited that income is a direct function of revenues, which implies that income is equal to sales minus total costs (variable costs + fixed costs). He further stressed that the proportion of variable costs to revenues remains consistent over time, fixed costs may be consistent or rise from time to time, but might not be decreased. Hence, total revenue can only be deliberately smoothed through real smoothing. This means that total revenues cannot be artificially smoothed. Thus, a firm is artificially smoothing when the changeability of its income is larger than the same changeability of its sales. The finding of the study has been used to conclude that entities are unable to decrease the changes of their income time series below the changes of their revenue time series. Thus, it may indicate that, for the income smoothing hypothesis, the issue remains unanswered.

Furthermore, Leuz et al. (2003) and Francis et al. (2004) used cash flows as an instrument for unsmoothed income, and measured smoothness as the ratio of earnings variability to cash flow variability. They contended that, managers can adopt their accounting decision to hide economic distress to the company's operating cash flow by increasing the reportage of future income or postponing the report of present costs to conceal poor present performance. They argued that insiders, in trying to protect their personal control benefits, use earnings manipulation to hide the organisation's performance from outsiders. They found that earnings manipulation is expected to reduce investor protection since strong protection constrains the insiders' abilities to gain private control benefits, which decreases their incentives to hide firm performance.

Most of the above studies have empirically examined the influence of firm specific attributes on income smoothing behaviours and practices. DeFond and Park (1997) employed current and future performance controlled by leverage and firm size to examine their association with the income smoothing behaviour in the US. Francis et al. (2004) examined how the cost of equity influenced income smoothness. Similarly, Atik (2009) used firm size, employee costs, ownership structure, leverage, percentage of earnings deviation, industry type, and monetary effect as the determinants of income smoothing in Turkey. Aflatooni and Nikbakht (2010) used the book to market value of shares and firm size to examine their relationships with income smoothing practices in Iran. Godfrey and Adi (2012) used directors' remunerations, market concentration, leverage, and firm size as predictors of the income smoothing behaviour in Australia. Trisanti (2014) applied external audit

quality, institutional shareholding, and industry type as the determinants of the income smoothing practices in Indonesia. However, none of these studies has examined AC and income smoothing. As such, further research is required by employing different constructs that may have influence over income smoothing practices or smoothing behaviours of firms.

Consequently, this study has used income smoothing as a measure of FRQ in addition to the DA model. The reason for the selection of income smoothing models was as a result of the fact that income smoothing appeared to be a communal company's practice in various countries of the world. Thus, managers' efforts to smooth perpetual changes in cash flows will result in less timely and less informative earnings numbers (Dechow et al., 2010). However, prior studies on AC and financial reporting have given little attention on income smoothing as a measure of FRQ. Despite the fact that smoothed earnings are considered to be less informative to shareholders and other stakeholders since they are of lower earnings quality (Ayres, 1994). Similarly, smoothness is an active managerial technique that is applied to decrease the earnings changeability of a firm for consecutive periods or within a particular period towards a prearranged target, which is another method of artificial EM (Beattie et al., 1994). Since, artificial earnings manipulation takes place when preparing a financial statement. Then, after this period, the external auditors are required to examine the accounts and ascertain whether the financial evidence obtained in the annual report is consistent with the ethical and regulatory provisions; and if, in their opinion, they are not, they are expected to highlight any potential irregularities in their report (CAMA, 2004). At the same time, the AC becomes

increasingly responsible for the oversight of the integrity of a firm's financial reports as well as ensuring compliance with ethical, lawful, and other monitoring requirements (CAMA, 2004). Thus, it is expected that when the responsibility of the external auditor to examine the account and the oversight function of the AC are put together, they may have greater influence over the managers' use of discretionary accounting to artificially smooth income.

Furthermore, it has been argued that, firms that prepare their financial statements under the IFRS exhibit significant increases in income smoothing and aggressive reportage of accruals (Ahmed, Neel & Wang, 2013; Capkun & Collins, 2018; Chen, Tang, Jiang & Lin 2010; Hail & Wysocki, 2010; Kaserer & Klingler, 2008). This is because, the adoption of the IFRS gives managers more or less a chance to manipulate earnings which is evinced through the application of fair value estimates that are made by management who can use their discretion to manipulate income to cover their desires (Hassan, 2015; Kaserer & Klingler, 2008). This has been affirmed by Chen et al. (2010) who found that there was less magnitude of the DA after the IFRS adoption amongst firms from 15 European countries, but the firms were involved more in income smoothing during the post-IFRS periods. Ozili (2015) also contended that listed banks in Nigeria smoothed reported earnings over time during the periods of the voluntary IFRS adoption and suggested that IFRS adoption reduced the reliability of loan loss provisions. However, prior studies considered profit smoothness to be an indicator of lower FRQ since it is another form of artificial earnings manipulation (Dechow, Ge, & Schrand, 2010; Gaynor et al., 2016;

Yang & Tan, & Ding, 2012). Accordingly, earnings manipulation and creative accounting have become prevalent phenomena in Nigeria (Hassan, 2015).

2.6 Concept of Corporate Governance

Corporate governance can be defined as standard rules and regulations, as well as internal processes of an organisation that are aimed to provide guarantees for management who are interested in achieving the rights of the owners and protecting the rights of all the interested parties of the organisation (Ghalboon & Khalid, 2011). It is also defined as rules, processes or laws through which companies are governed, regulated, and operated with the sole aim of promoting transparency and efficiency in the financial system and stimulating the assignment of responsibilities in an ethical, professional, and objective manner (CBN Code of CG, 2014). Therefore, good corporate governance is pivotal in providing credible and reliable information which, in turn, enhances the confidence of the investors.

The evolution of modern corporate governance is originated from the publication of Berle and Means (1932). However, Wells (2010, p. 1251) argued that “*the concept of corporate governance has been in existence since the application of corporate firms created the feasibility of conflict between owners and managers*”. From the above, it is observed that the concept of corporate governance arises because of the separation between ownership and control which brings about agency problems in organisations. Thus, the agency problem depicts a conflict of interest between the shareholders and management. Hence, the concept of corporate governance is an act of making sure that companies continue to establish a means for investors to carry

out corporate risk and produce wealth without inflicting fraud or any type of abuse on the investors and stakeholders (Watts & Zimmerman, 1983; Wells, 2010).

Several corporate and accounting scandals and failures (e.g., Enron, Global Crossing, Xerox, and WorldCom) raised serious concerns about the credibility and reliability of financial reports. Thus, there is a need to protect investors' interests. In response to this, there has been a global transformation towards promoting and implementing governance mechanisms to minimise the opportunistic behaviours that have dented shareholders' reliability in financial information. For instance, The United Kingdom's Financial Reporting Council consistently reviewed the Combined Code in 2010 and 2012 and the United States, in 2002, introduced the Sarbanes-Oxley Act (SOX) as a response to the scandals of Enron and WorldCom, to help promote the quality of information and improve financial reporting (Hew, 2015). The Public Company Accounting Oversight Board (PCAOB) has also been introduced to supervise and oversee the audit of the US public companies thereby protecting the interests of investors and enhancing the independent audit report which will, in turn, improve the informativeness of the earnings (Jackson, 2010).

In some emerging markets, the Malaysian Code on Corporate Governance was reviewed in 2012 in order to align with the best corporate governance practice. Therefore, most of the foregoing codes have recognised the importance of the AC's role in providing external auditors with independence. However, despite this similarity, there are some peculiar differences amongst the codes in developing nations. The Malaysian CG (2012) introduced an audit oversight board which was provided to ensure the independent supervision of the external auditors of an entity.

On the contrary, the Nigerian SEC Code of CG (2011) has required the presence of at least one independent non-executive director on the board, the need for AC financial expertise and mandatory external auditors' rotation. This has been introduced in order to align with the best governance practices across the globe. One major distinctive attribute of corporate governance practice in Nigeria is the composition of the AC, which requires the representation of both shareholders and directors. Therefore, there is an increasing need to be more proactive in corporate governance issues because they are so important; since, weak corporate governance can lead to the failure of a country's economic structure (Aina & Adejugbe, 2015).

2.6.1 Corporate Governance System in Nigeria

The concept of corporate governance did not receive much attention in Nigeria until after the financial scandals reported in the manufacturing sector and the Nigerian banking industry. These include, the Cadbury scandal of 2006, the banks' failures that affected Intercontinental Bank Plc, Oceanic Bank Plc, and Afribank Nigeria Plc in 2009, and most recently, the financial scandals of Stanbic IBTC Holdings Plc in 2015 (Marshall, 2015; Naija 24/7 News, October 28, 2016). This raised serious concern about the corporate governance practices in Nigeria. Since then, there has been a series of reviews and reforms with a view to enhancing the corporate governance structures and practices in the country. For instance, the SEC Code of Corporate Governance (2003) was issued to guide the operation of public companies listed on the NSE and this was later reviewed in 2011. Following this, the CBN issued a Code of Corporate Governance after the banks' consolidation in 2006. This was later reviewed in 2011 and 2014, respectively. The CBN's revised code of 2014

was renamed the Code of Corporate Governance for Banks and Discount Houses in Nigeria. The essence of the review was to align with the current development and global best practices. The NAICOM code of 2009 was also issued to regulate the insurance activities in the country. Similarly, the PENCOM Code 2008 and finally, the NCC Code of Corporate Governance for the Telecommunication Industry (2014) were issued to guide and regulate the pension management and administration, and telecommunications in Nigeria.

Furthermore, in order to provide the best corporate governance practice in the country the Nigerian legislature has provided a regulator known as the Financial Reporting Council of Nigeria (FRCN) with statutory responsibility to formulate the code of corporate governance in Nigeria and to ensure its compliance. The code is meant to regulate corporate governance for public and private entities and to ensure the transparency, accountability, and reliability of corporate disclosure which will in turn guarantee investors' confidence and protect the interests of the shareholders, both local and internal ones. The Code made some modifications and additions and calls for the harmonisation and unification of the various codes of corporate governance in Nigeria. The call was made by the Steering Committee which made an extensive corporate governance literature review and observed that no nation had adopted a sectorial multiplicity of codes of governance like Nigeria (FRC Code of Corporate Governance, 2016). As, the multiplicity of codes bring nothing rather than confusion because of conflicting objectives on apparently the same matter (Marshall, 2015).

Consequently, there is an increasing need to be more proactive in corporate governance issues because they are so important, since weak corporate governance can lead to the failure of a country's economic structure (Aina & Adejugbe, 2015). Studies on corporate governance and FRQ in Nigeria have been explored by some researchers and these include Kurawa and Saheed (2014) who examined the corporate governance and EM of the listed firms in Nigeria related to their FRQ. Miko (2016) examined the influence of the corporate governance, firm attributes and EM of the listed companies in Nigeria. Abata and Migiro (2016) studied the corporate governance and EM of some selected companies in Nigeria. Chi-Chi and Friady (2016) examined the corporate governance and FRQ in five companies listed in the NSE. They argued that strong corporate governance enhances the financial reporting process. However, the AC has been recognised as one of the important components of corporate governance (Brennan & Kirwan, 2015), since it is established with the primary aim of promoting the quality of audits and thus, enhancing the FRQ. In light of the above, it is expected that studying the interrelationship of the variables AC, audit quality, and FRQ will be of immense importance, particularly in the Nigerian context that has a unique feature of the AC formation, which comprises representatives of both shareholders and directors. Next, is the summary of the evolution of the Nigerian code of corporate governance.

Table 2.1

Summary of Evolution of Nigerian Code of Corporate Governance

Code	Year	Effective Date	Provisions
SEC Code of Corporate Governance	2003	October, 2003	Functions & responsibilities of directors, Board committees including AC, qualifications of AC, functions of internal & external auditors, reporting & control, shareholders' rights & privileges,
CBN Code of Corporate Governance	2006	3 rd April, 2006	Nature of equity ownership, Abolition of CEO duality, the presence of at least two independent non-executive directors on the board, board performance, transparency and disclosure requirement, risks management committee, functions of external & internal auditors, & mandating external auditors' rotation
PENCOM Code of corporate Governance	2008	January, 2008	Functions & responsibilities of directors, conflict of interest, reporting requirements & issues on noncompliance, functions & responsibilities of directors, remuneration, performance evaluation, company secretary, shareholders & stakeholders, risk management & internal control & related party transactions
NAICOM Code of Corporate Governance	2009	1 st March, 2009	The need for good CG, in the industry, board of directors, responsibilities of directors of insurance companies, shareholders right, complicit of interest, audit and compliance committee, internal & external audit & disclosure and reporting requirement
SEC Revised Code of Corporate Governance	2011	1 st April, 2011	Abolition of CEO duality, the presence of at least one independent non-executive director on the board, the need for AC financial expertise, the creation of risk management committee and corporate governance committee, shareholders insider trading, communication policy, mandating external auditors' rotation
NCC Code of Corporate Governance	2016	July, 2016	Compliance with the law, the creation of Whistle blowing policy, responsibilities of directors, performance evaluation, shareholders & stakeholders, risk management & internal control, disclosure and reporting requirement
CBN Revised Code of Corporate Governance	2014	1 st October, 2014	Introduce guidelines for discount house and also introduce guidelines and information on whistle blowing policy, right & functions of shareholders & stakeholders, ethics professionalism & conflict of interest

Source: (SEC CG, 2003; 2011; CBN CG, 2006; 2014; NAICOM CG, 2009; NCC CG, 2016; PENCOM CG, 2008)

2.6.2 Audit Committee

The audit committee has been conceptualised as a key corporate governance mechanism (Brennan & Kirwan, 2015). Thus, the primary responsibility of the AC is to render the oversight function on an entity's financial reporting. The AC plays a crucial role in safeguarding the reliability of the financial reports by enhancing the external auditing and internal controls through their active oversight duty (Malik, 2014). Arens, Elder, and Mark (2012) defined the AC as a group of individuals selected from members of the board who are responsible for maintaining the independence of the auditors. The Sarbanes Oxley Act (2002) defines the AC as a committee recognised by and amongst the members of the board of directors of an entity with the aim of supervising the financial and accounting reporting process of the entity and audits of the financial reporting of the entity.

The primary objective behind the establishment of the AC is to promote the quality of the audits and check the board of directors, thereby increasing the FRQ. The AC is regarded as the distinguishing characteristics of the directors in monitoring the managers' decisions concerning financial disclosure (Firoozi, Magnan, Fortin & Nicholls, 2016). Therefore, it has been contended that government authorities, regulatory agencies, and international professional bodies view the AC as likely powerful devices that can boost the reliability and transparency of financial reports (Bamahros & Bhasin, 2016).

Studies on the AC can be classified into three broad categories, these include AC formation (Madawaki & Amran, 2013; Chau & Leung, 2006) AC effectiveness (Alves, 2013; Djuitaningsih, 2016; Zgarni et al., 2016) and AC characteristics

(Abernathy et al., 2014; Baxter, 2007; Klein, 2002; Hamdan et al., 2013). This study has focused on AC characteristics because it has considered several attributes of the AC and their influence over FRQ. Therefore, studying the characteristics of an effective AC in enhancing FRQ is an issue that has been difficult to address by prior literature, but is presently needed in light of the growing attention to the formation of the AC (Cohen, Gaynor, Krishnamoorthy & Wright, 2007). More so, the AC has been considered as an independent variable because it is an effective corporate governance oversight mechanism that has a disciplining role on the manager's discretion in the estimation of the accounting numbers.

2.7 Audit Committee Characteristics and Financial Reporting Quality

The AC plays an entirely significant role in increasing earnings reliability in environments with a feeble execution of accounting standards, or feeble investors' legal protection (Poretti, Schatt & Bruynseels, 2018). The AC is regarded as the distinguishing characteristics of the directors in monitoring the managers' decisions concerning financial disclosure (Firoozi et al., 2016). Studies on AC characteristics and FRQ have reported mixed findings in the (Abernathy et al., 2014; Al-Rassas & Kamardin, 2015; Baxter, 2010; Cotter & Silvester, 2003; Klein, 2002; Hamdan et al., 2013; Bamahros & Bhasin, 2016; Moses et al., 2016). Some of these studies failed to find significant relationships between some characteristics of the AC and FRQ. Audit committees' characteristics vis-a-vis FRQ has been explored in prior studies using various constructs, such as the size of the board (Haji & Anifowose, 2016; Moses et al., 2016; Xie, Davidson & Dadalt, 2003), independence (Madawaki & Amran 2013; Klein, 2002; Yang & Krishnan, 2005), frequency of AC meetings (Beasley et al.,

2009; Sultana, 2015), women's representation in AC (Abdullah & Ku-Ismael, 2016; Lara et al., 2017; Thiruvadi & Huang, 2011) and AC expertise (Aanu, Oodianonsen & Taiwo, 2015; McDaniel et al., 2002). Therefore, Krishnan et al. (2011, p. 2100) observed that changes in the regulations regarding the appointment of financial experts to the company's AC have stimulated more studies on the association between AC expertise and FRQ. Hence, more attention needs to be given on other areas of expertise, such legal experts and public accounting experts, rather than financial accounting experts alone.

Previous studies on the AC have documented that AC characteristics are important components of corporate governance, which have influence in reducing the managers' opportunistic behaviours and improving the financial reporting process. For example, the study of Baxter (2010) reveals that the formation of an AC reduces EM. Similarly, Ben Rejib Attia (2012) contended that strong corporate governance, including an AC, significantly reduces the artificial income smoothing performed by managers. More recently, Abbadi, Hijazi and Al-Rahahleh (2016) examined the corporate governance and EM of the listed companies in Jordan for the period of 2009 to 2013. The findings of the study show that the AC reduced EM and improved FRQ. This is affirmed by Halidar and Raithatha (2017) who argued that the AC guarantees better disclosure and prepares entities to present steadfast and robust financial statements. Similarly, Usman et al. (2017) studied the influence of corporate governance devices on the value of comprehensive income reporting in Nigeria. They showed that corporate governance devices, including AC attributes (size, independence, meetings, and expertise), are positively related to the

stakeholders“ pricing of other comprehensive income. In addition, Al-Maqoushi and Powell (2017) examined the effect of AC indices, value of firm and accounting outcomes in the US. They found that an effective AC has less likelihood of partaking in accounting issues, auditor's dismissal after disagreements, and restatements. More recently, Bajra and Čadež (2018) studied the effect of the AC and FRQ of 217 big European companies for the period of 2004 to 2013. They revealed that AC effectiveness and experiences are positively related to FRQ.

The foregoing findings may not be surprising because reasonable attention is given by the regulators and practitioners on the AC through constant reviews and reforms of the committees all over the globe. Furthermore, Wu et al. (2015) studied the implementation of the AC and the independence of the director on the financial reporting in China. They conducted a survey through interviews in the year 2009. The result from their analysis shows that the AC appeared to be employed to accomplish ritualistic roles rather than to act as true monitors and overseers. This may be the reason why the AC and independent directors were mainly ritualistic in nature rather than establishing effective supervision and oversight. Hence, the usefulness of the AC is substantially measured by the interplay between the AC and the effort of the external auditors through both official and unceremonious structures or processes (DeFond & Zhang, 2014). For that reason, Brennan and Kirwan (2015) suggested that further research should be conducted on the communication between the AC members and the professional auditors or experts briefing the AC. They also contended that AC research as compared with research on the boards of directors is still in its infancy.

2.7.1 Audit Committee Size

Most of the global corporate governance practices mandate that there should be three members in the AC (Smith Report, 2003; Cadbury Report, 1992). Studies that have been conducted on the association between AC size and FRQ provided mixed findings. For instance, Felo, Krishnamurthy and Sollerli (2003) conducted a study on AC characteristics and the perceived quality of financial reporting in the US. The study covered the period of two years, ranging from 1995 to 1996. They took a sample of 119 firms from the New York Stock Exchange (NYSE). They employed the industry performance score as a measure of FRQ. The findings of the study reveal a positive significant association between AC size and FRQ. Vafeas (2005) used 252 companies in the US and examined the AC, boards, and earnings quality. The result reveals a negative correlation between AC size and negative earnings surprise. This validates the findings of Liu and Sun (2010) who studied the role of directors' tenure on the effectiveness of an independent AC. Their result shows that AC size has a negative significant relationship with EM. This suggests that a larger AC is more effective in mitigating EM. It can be argued that the above findings support the notion that a moderate number of AC members is better in enhancing FRQ.

In contrast, Lin, Li and Yang (2006) examined the impact of AC performance on earnings quality. They used a sample of 212 firms listed in the US Stock Exchange. They utilised earnings restatement as a proxy for EM. They found that AC size was positively correlated with earnings restatements. Furthermore, Leong et al. (2015) measured the influence of the AC on FRQ in Singapore. After running the cross-

sectional data using OLS, the result of the study revealed a negative significant relationship between AC size and FRQ. More so, a recent study of Al-Shaer, Salama and Toms (2017) examined the AC characteristics and disclosure quality of 350 listed firms in the UK for the period of 2007 to 2011. They found that AC size has a negative significant relationship with disclosure quality.

From emerging economies, Shirazi and Salehi (2016) examined a sample of 100 firms in the Tehran Stock Exchange for the period of 2013 to 2014. The findings of the study from the fixed-effect generalised least square (FGLS) model provided evidence of a positive significant impact between AC size and financial disclosure quality. Similarly, Azzoz and Khamees (2016) adopted the modified Jones model and examined the effect of the corporate governance attributes on EM in Jordan. The findings of the study reveal that AC size has a negative significant impact on DA. Therefore, these results show that companies, which have a larger board size on the AC and consist of independent directors, have a low level of DA, which, in turn, indicates a high level of FRQ. This is empirically supported by the finding of Mishra and Malhotra (2016) who used 130 companies from the Indian Stock Exchange market for 2013 to 2015 and studied the influence of AC characteristics and EM. They adopted the modified Jones Model 1995 as the measure of EM. The study reveals a negative significant association between AC size and EM. This implies that a larger number of members on the AC mitigates EM and improves the quality of the financial reporting.

On the other hand, Fuad (2016) examined the effect of the AC characteristics on the real EM of the listed firms in Indonesia for the period of 2012 to 2014. The study

reveals that AC size has a positive significant association with the real EM. In contrast, a recent study of Setiany, Hartoko, Suhardjanto and Honggowati (2017) examined the AC attributes and voluntary financial disclosure in Indonesia. They utilised a sample of 100 firms for the period of 2009 to 2012. The study reveals that AC size has a positive significant influence over the voluntary financial disclosure of the firms. More so, Mohammed, Ahme and Ji (2017) explored the influence of corporate governance, political connections, and accounting conservatism in Malaysia. They utilised a sample of 206 companies for the period of 2004 to 2007. The study reveals a positive significant association between AC size and accounting conservatism. Equally, Ismail and Kamarudin (2017) explored whether the AC supports the informative or deceptive implication of creative accounting in Malaysia. They argue that AC independence supports the deceptive proponent of creative accounting practice as evidenced by an inverse association between AC size and the income smoothing behaviour of the firms.

In Nigeria, Fodio et al. (2013) used 25 insurance firms in Nigeria to determine the influence of corporate governance and earnings quality for the period of 2007 to 2010. The study reveals a negative significant association between AC size and DA from the modified Jones Model (1995). Similarly, Aanu et al. (2015) studied the effect of AC financial expertise on the quality of financial reporting in Nigeria. They extracted data from the 15 deposit money banks for the period (2003-2012). The dependent FRQ was represented by the total accrual quality and audit reporting lag. They employed the Ordinary Least Squares (OLS) in their analysis. The study found a negative significant association between the AC size and FRQ of the banks in

Nigeria in both of the models. Also, Abubakar (2016) examined the influence of corporate governance, audit quality, and real activity manipulation in Nigeria. He used 15 banks in the NSE for the period of 2004 to 2013. The dependent variable was represented by cash flow manipulation. A generalised least squares (GLS) regression was employed to analyse the relationship between the variables. The findings of the study show a negative significant impact between AC size and cash flow manipulation.

Abata and Migiro (2016) studied the corporate governance and EM of some selected companies in Nigeria. The population of the study consisted of 63 listed companies from the manufacturing and banking sectors in which 24 companies were used. The data were collected from the firms' annual reports for the period of 2008 to 2013. After running a panel multiple regression, the result from the random model reveals that AC size was negatively associated with EM. Additionally, Chi-Chi and Friady (2016) examined corporate governance and FRQ in Nigeria. They utilised a sample of five companies listed in the NSE for the period of ten years from 2006 to 2015. They employed the Jones model (1991) as a proxy for FRQ. The study reveals a negative significant impact between AC size and DA. On the contrary, Umobong and Ibanichuka (2017) observed that AC size is negatively and significantly related to FRQ.

Additionally, Miko (2016) examined the influence of the corporate governance, firm attributes and EM of the listed companies in Nigeria. He utilised a sample of 81 listed non-financial firms for the period of 2009 to 2013 and employed accrual models as measures of EM. The study reveals that AC size is negatively and

significantly associated to discretionary accruals. This implies that a larger number of AC members is more effective in minimising EM. However, the study considered only DA measures as proxies for EM. Therefore, there is the need to consider other measures of earnings manipulations in Nigeria, for example, income smoothing, particularly in light of the recent argument which reveals that firms have exhibited a significant increase in income smoothing after the IFRS (Ahmed, Neel & Wang, 2013; Chen, Tang, Jiang & Lin, 2010; Hail & Wysocki, 2010; Kaserer & Klingler, 2008).

Furthermore, it is observed that Felo et al. (2015) and Shirazi and Salehi (2016) covered the period of the years from 1995 to 1996 and 2013 to 2014, respectively, whilst Leong et al. (2015) covered only one year, 2010. These periods may be considered too short because a two year or a single period would not be enough for generalisation of the findings. Additionally, the sample sizes used by some of the studies may be considered too small. For instance, Abubaker (2015) used 15 companies from a single sector, whilst Chi-Chi and Friady (2016) adopted a ten-year period with only five companies. Therefore, a study with a small sample size may not represent a real population and, as such, the findings thereof may not be used in any generalisation. For that reason, there is the need to consider current changes in regulations with a relatively larger population.

2.7.2 Audit Committee Independence

Most of the global regulations require that a larger proportion of AC members ought to be independent directors (SOX Act, 2002). The most anticipation is that, an

independent AC would provide better financial report monitoring. Since, they have no depending interest in compromising objectivity (Yang & Krishnan, 2005). Thus, the AC ought to be independent for it to function effectively (Collier & Zaman, 2005). However, studies on AC independence and FRQ have inconsistent findings. For instance, Klein (2002) studied the AC, the board of director characteristics, and EM. She employed a sample of 692 public US companies and used a modified Jones model to extract the DA as a proxy for EM. The finding reveals a negative significant association between abnormal accruals and the existence of independent AC members. Her finding is similar to that of Bédard et al. (2004) who conducted a study on the impact of AC expertise, independence, and activity on aggressive EM in the US. They utilised a sample of firms listed in the New York Stock Exchange. They adopted the modified Jones model (1995) as a measure of abnormal accruals. The finding shows that AC independence is negatively correlated with income increasing and income decreasing EM.

Additionally, Sharma and Kuang (2014) utilised a sample of 94 firms listed in the New Zealand Stock Exchange Market for a two-year period 2005 to 2006 and considered the effect of a voluntary AC and aggressive EM in New Zealand. The finding reveals a negative significant correlation between AC independence and EM. The result of the study indicates that AC independence mitigates the likelihood of aggressive EM. In the same vein, Amar (2014) considered the listed companies in France and studied the influence of AC independence on EM. The study reveals that AC independence is negatively and significantly related to EM. This suggests that AC independence is effective in mitigating earnings manipulation. The above results

are consistent with most prior literature in developed economies, which established that independent AC members are more effective in reducing accounting manipulations and improving financial reporting process. This may be as a result of the fact that the markets in developed economies like the US, UK, New Zealand, and Australia, amongst others, are highly regulated and, as such, their findings hereof may be almost similar. More recent studies include that of Gao and Huang (2016) who examined the nature of odd and even numbers of directors in the AC and corporate earnings quality in the US. The findings of the study reveal that AC independence in even numbers in the AC is positively significant with restatements.

Prior studies in some of the emerging markets provide evidence on the relationship between AC independence and FRQ. For instance, Al-Rassas and Kamardin (2015) examined the effect of internal and external audit qualities, AC attributes, ownership concentration, and earnings quality in Malaysia. They maintained a sample of 508 companies for the period of 2009 to 2012. The dependent variable was proxied by the DA extracted from the modified Jones model by Dechow et al. (1995) and Yoon et al. (2006). After running a multivariate regression, the findings of the study revealed that AC independence was positively and significantly related with DA in the first model, but not significant in the second model. This is supported by Marzuki et al. (2016) who documented that AC independence is positively and significantly associated with earnings conservatism. More so, Fuad (2016) examined the effect of the AC characteristics on the real EM of the listed firms in Indonesia for the period of 2012 to 2014. The study reveals that AC independence has a positive significant association with real EM. Recently, Setiany et al. (2017) examined AC attributes and

voluntary financial disclosure in Indonesia. The study shows that AC independence has a positive significant influence on voluntary financial disclosure. More recently, Poretti et al. (2018) examined whether autonomous directors in the AC have influence over the market reaction of Western Europe. They employed a sample of companies from 15 European countries for the years 2006 and 2014. They show that the more the proportion of autonomous directors in the companies' ACs, the higher the market reactions to earnings pronouncements. They suggest that more autonomous audit committees serve as substitutes for weak institutions to enhance the reliability of their earnings pronouncements. In addition, Amin, Lukviarman and Setiany (2018) explored the influence of board attributes on earnings quality in Indonesia. They reveal that AC independence has a negative significant relationship with DA.

Furthermore, Khalil and Ozkan (2016) extracted a unique data set of Egyptian non-financial firms for the period of 2005 to 2012 and examined the impact of board independence audit quality and EM. A performance adjusted measure of DA by Kothari et al. (2005) was used to estimate the dependent variable. The findings from a multivariate analysis reveal that AC independence is negatively and significantly related to DA. This is confirmed by the recent finding of Jerubet, Chepng'eno and Tenai (2017) who examined the AC attributes and FRQ of the listed firms in Kenya. They employed Dechow and Dichev (2002) and Kothari et al. (2005) as measures of FRQ and thus, reveal a negative significant impact between AC independence and FRQ. This is supported by Azzoz and Khamees (2016) and Saleem and Alzhobi (2016) who found a negative significant impact between AC independence and DA.

On the contrary, Inya, Psaros and Seamer (2018) examined the role of corporate governance in minimising management misbehaviour in Thailand. They utilised a sample of 61 listed firms in the Thai Stock Exchange market. The study shows a positive but nonsignificant relationship between AC independence and the possibility that management will misbehave. On the other hand, Ismail and Kamarudin (2017) show that AC independence supports the deceptive proponent of creative accounting practices by proving an inverse association between the AC independence and income smoothing behaviour of firms.

In Nigeria, Kibiya et al. (2016a) examined whether regulatory changes matter on FRQ. They utilised a secondary source of data collection and took a sample of 101 firms listed on the NSE for a five-year period of 2010 to 2014. The dependent variable, FRQ, was proxied by the DA extracted from McNichols' (2002) model. The finding shows that AC independence has a negative significant correlation with the DA in both pre-and post-Code of Corporate Governance 2011. This indicates that the existence of independent directors in the AC constrain managers' opportunistic behaviour. Kantudu and Samaila (2015) studied the influence of the board characteristics and the AC on the FRQ of companies in Nigeria. The findings of the study reveal that an independent AC significantly impacts on the FRQ of the firms in Nigeria. Again, Ormin et al. (2015) studied the effect of the AC, meetings, attendance, and FRQ in Nigeria. They employed a secondary method of data collection and obtained information from Nigerian banks for the period of ten years from 2003 to 2012. The result of the random model from the study shows that ACI has a negative significant impact on FRQ. More recently, Akhor and Oseghale

(2017) examined the AC attributes and financial reporting lag of the listed banks in Nigeria. They utilised a sample of nine banks for the period of 2011 to 2015. The study reveals a positive significant influence between AC independence and FRQ. This shows that a larger proportion of independent directors in the AC delays the reporting period of financial statements in Nigerian banks. This was observed by Akeju and Babatunde (2017) who studied the influence of the corporate governance and FRQ of the listed firms in Nigeria. They took a sample of 40 firms listed in the NSE for the period of 2006 to 2015. The study reveals that AC independence has a positive significant association with FRQ. This shows that an increase of independent directors in the AC improves FRQ.

2.7.3 Audit Committee Meetings

Previous literature argued that the frequency of AC meetings reduces the degree of financial restatements by frequently meeting with the internal audit which will make them remain informed and acquainted with the accounting and auditing issues (Abbott et al., 2004; Raghunandan, Read & Rama, 2001). In the same vein, Hamdan et al. (2013) and Habbash and Alagla (2015) contended that more frequent meetings reduces DA and enhances FRQ. This supports the findings of Sultana (2015) who undertook a study in Australia for the period of 2004 to 2012. He examined the influence of AC characteristics and accounting conservatism. The results indicate a positive significant correlation between AC meetings and accounting conservatism. On the contrary, a recent study of Katmon and Farooque (2015) examined the influence of the internal governance mechanisms on the EM management of the listed firms in the UK. They took a sample of 145 firms for the period of four years,

2005 to 2008. Their findings show a positive significant relationship between AC meetings and EM. This shows that more frequent meetings are associated to higher EM.

More so, Ika and Ghazali (2012) studied the effectiveness of the AC and timeliness of the financial reporting in Indonesia. They found that AC effectiveness, including the frequency of meetings, minimise the audit reporting lead time. A recent study by Shirazi and Salehi (2016) shows that AC meeting is negatively and significantly related to financial disclosure quality. Additionally, Haji and Anifowose (2016) examined AC and integrated reporting practices. They adopt a GLS to run the multivariate regressions. The study found that AC meetings have positive significant impact on integrated reporting. However, the time frame of the study can be considered too short as the study period of three years may be too small for generalisation. Similarly, Marzuki et al. (2016) determined whether the Malaysian Code of Corporate Governance (2007) has influence over EM. They utilised a secondary source of data and took a sample of 3,183 Malaysian firms for two periods of pre- MCCG (2007) ranging from 2004 to 2006 and post- MCCG (2007) ranging from 2007 to 2009. The result of the study reveals that AC meetings have positive significant impacts on earnings conservatism. More recently, Shankaraiah and Amiri (2017) examined AC quality and FRQ in India. The study reveals that AC meetings have negative significant impacts on the FRQ proxy by DA. This is affirmed by Kolsi and Grassa (2017) who examined whether governance mechanisms influence the EM of Islamic banks. They took a sample of 26 Islamic banks from five United

Arab Emirate nations for the period of 2004 to 2012. Their findings show that AC meetings have negative significant influence on discretionary loan loss provisions.

Furthermore, studies in Nigeria, such as Ibrahim et al. (2016), used 20 manufacturing firms listed on the NSE in 2008 to 2013 and examine the relationship of AC attributes and real activities manipulations. They adopted the Roychowdhury (2006) model to proxy for real activities manipulation. The result indicates a positive significant impact between AC meetings and real activities manipulations. This has been confirmed by the study of Dabor and Dabor (2015) who found a negative significant correlation between the AC meetings and the discretionary loan loss provisions of the Nigerian banks. Furthermore, Mbobo and Umoren (2016) examined the influence of the AC characteristics on the FRQ of listed companies in Nigeria. They took a sample of ten listed banks for the period of 2006 to 2013. The study reveals that AC meetings have positive significant relationships with FRQ proxied by the IFRS qualitative characteristics. Eze (2017) studied corporate governance and earning management in Nigeria after adopting the modified Jones Model (1995); the study shows a positive significant impact between AC meetings and DA. This is affirmed by Umobong and Ibanichuka (2017) who examined the AC attributes and the FRQ of the listed firms in Nigeria. They utilised a sample of listed food and beverage firms for the period of 2011 to 2014. The study reveals that AC meetings are positively and significantly related to FRQ. More so, Dakata, Kamardin and Delima (2017) examined the influence of the AC attendance and the EM of the listed firms in Nigeria. They used a sample of 14 companies for the period of 2012 to 2014,

and EM was represented by the Modified Jones Model (1995). The study shows that AC attendance has an inverse relationship with EM.

2.7.4 Audit Committee Financial Accounting Expert

An AC financial expert is a person who has knowledge of the GAAP and financial reporting and is able to evaluate the overall application of such principles with reference to the accounting estimate, accruals, and revenue (Sarbanes Oxley Act, 2002). He/She should also be a person who has experience in the preparation of audits and appraisals of financial reports that exhibit a breadth level of complexity in accounting issues and has general understanding of AC functions (Trautman, 2013).

Prior studies on financial accounting experts and FRQ include: Mcdaniel et al. (2002) who examined the impact of financial literacy and financial experts on FRQ in the US. They found that having financial expertise on the AC may potentially enhance the communication about FRQ and raise the constancy of the evaluations of the overall reporting quality. Felo et al. (2003) confirmed a positive significant relation between the AC accounting expert and the FRQ of the US firms. They contended that mandating a larger proportion of experts in the AC rather than requiring only one expert could be beneficial to the investors.

More so, Defond et al. (2005) examined whether financial expertise on the AC is valued in the market. They utilized a sample of 702 outside directors appointed in 509 firms in the US for the period of ten years from 1993 to 2002. The findings reveal a positive significant association between AC accounting experts and abnormal returns. The finding is supported by Agrawal and Chadha (2005) who

studied corporate governance and accounting scandals and examined 318 listed firms in the US. The findings of the study show that AC accounting experts reduce the tendency that a firm has to restate its earnings. In addition, Krishnain and Visvanathan (2008) found a positive significant association between the AC financial accounting experts and the accounting conservatism of the US listed firms. Similarly, Dhaliwal, Naiker and Navissi (2010) examined 770 US firms and studied the influence of the characteristics of AC accounting experts. They found that AC accounting experts is positively correlated with accruals quality. Huang and Thiruvadi (2010) examined the association between AC characteristics and financial fraud. They took a sample of 218 listed firms in the US for the year 2003. The study reveals that AC financial accounting experts are negatively associated with financial fraud. This indicates that members of the AC with financial accounting knowledge are more likely to prevent financial fraud in the US firms.

More recently, Sultana, Mitchell and Zahn (2013) used 494 listed firms in Australia and studied the relationship between AC financial accounting experts and earnings conservatism. The study reveals that an AC financial accounting expert is significant in recognising and enhancing FRQ. Badolato, Donelson and Ege (2014) studied the influence of the AC financial experts over the EM in the US. They utilised a sample of 29,073 firm year observations for the years 2001 to 2009. After using the accounting irregularities and abnormal accruals as measures of EM, the study found that the ACFAEs with high status reduced the levels of EM. Furthermore, Liu et al. (2014) studied the relationship between the AC accounting expertise and the non-negative earnings of the EM of the firms in the US. They employed the Kothari et al.

(2005) model as a measure of EM. The findings of the study show that the AC accounting expert is positively and significantly related to an expectation that management will meet or beat earnings targets.

Fuller (2015) studied the influence of audit reporting choice and AC monitoring strength on the managers' financial disclosure decisions in Georgia. The finding of the study shows that the strength of the AC proxied by AC financial accounting knowledge is positive and significant when the audit oversight is strong. It has been deduced that most of the above findings support the resource dependence theory which presumes that AC members with financial expertise are more effective in scrutinising the activities of management and mitigating managers' opportunistic behaviours of EM.

Additionally, Ittonen, Tronnes and Vahamaa (2016) explored how the AC constrains EM in US companies. They used the discretionary loan loss provision as a proxy for EM. The finding from the analysis reveals that audit the AC accounting expert has a negative significant impact on discretionary loan loss provision. This suggests that a higher proportion of financial accounting experts in the AC constrains managers' manipulations of earnings. At the same time, by studying the influence of the number of professionally certified accounting experts on the AC and confidence in the earnings in the US, Levitan, Dubofsky and Sussman (2016) found that if the number AC financial accounting experts increases, there is a general tendency for confidence in the earnings to also improve the FRQ. More recently, Lisic, Myers, Seidel and Zhou (2017) studied the influence of AC accounting experts in ensuring auditors' independence. They utilised a sample of companies listed in the US for the

period of 2004 to 2013. The study reveals that the AC accounting expert is negatively related with auditors' dismissals following an adverse internal control weakness. This means that AC accounting experts induce auditors to be more approachable and transparent in their evaluation of internal control weaknesses. On the other hand, a recent study of Carrera, Sohail and Carmona (2017) examined audit committee and FRQ in the US. They used a sample of 13,668 firm-year observations for the period of 2001 to 2010. The study reveals a positive significant relationship between AC financial accounting experts and DA. This indicates that, increasing the proportion of AC members with financial accounting expertise decreases FRQ.

From emerging economies, Saleem and Alzohbi (2016) studied audit quality and EM in Jordan. The data for the study was extracted through a secondary source from the Amman Stock Exchange for the period of four years from 2007 to 2010. The dependent variable was proxied by the DA extracted from the Modified Jones model (1995). The findings show that there is a negative significant impact between the AC financial accounting expert and the DA of the listed companies in the Amman Stock Exchange market. Recently, Juhmani (2017) examined 31 listed companies in Bahrain for the period of 2012 to 2014 and found that the AC financial accounting expert has a negative significant impact with DA.

It can be argued that most of the above studies were conducted in developed economies which have different characteristics and are highly regulated compare to emerging economies like Nigeria. For that reason, there is the need to reexamine this variable and see the likely effect it may have on financial reporting in developing countries, particularly Nigeria. However, despite the recommendation of the SEC

Code of Corporate Governance (2011) for possessing at least one member of the AC who is an expert and has existing knowledge in accounting and financial management, most of the studies in Nigeria ignore financial accounting expertise as a proxy for AC, but rather consider all the attributes of expertise related to financial knowledge as one. Therefore, this study will consider financial AC expertise as a variable and examine its likely influence over FRQ in Nigeria.

2.7.5 Audit Committee Legal Expert

AC legal experts are the directors with legal backgrounds amongst the members of the AC. It is expected that members of the AC with legal backgrounds prepare the AC members to be more careful about legal risks that are linked to inaccurate or inadequate aggressive financial reporting. Hence, legal expertise in the AC could assist in ensuring better FRQ since the quality of financial reporting can be related to legal liability threats and their legal backgrounds require them to be more vigilant to such threats (Krishnan et al., 2011). Similarly, Dezoort (1997) used a survey method to explore the audit committees' oversight responsibilities in the US. He found that members of the AC appreciate the benefits of having divergent expertise areas, such as accounting, auditing, and law.

Studies on AC legal expertise and FRQ are limited. The few that have been found include: Baxter and Cotter (2009) who used 309 firms in Australia to examine the influence of AC and EM before the mandatory AC requirement in 2003; and, they adopted the Jones model (1991) and Dechow and Dichev (2002) as measures of earnings quality. The findings reveal that the AC legal expert is negatively and

significantly associated to EM in both models. This suggests that legal experts in the AC reduce the magnitude of earnings manipulation provided by the management. Krishnan et al. (2011) considered the increase of legal experts on the AC in the US and examined the association of legal expertise on corporate AC and FRQ. They took a sample of 1,000 firms for the three years of 2003 to 2005. They adopted the performance adjusted model by Kothari et al. (2005) and the Jones model (1991) as measures of FRQ. The study reveals a negative significant impact between the AC legal expert and DA. This indicates that legal expertise acts as a monitor rather than a mere signal to financial reporting. More recently, Jintawattanagul et al. (2016) studied the mediating role of the accruals quality on the AC attributes and the cost of equity of 272 listed firms in Thailand for the period of 2010 to 2012. The study reveals a negative non-significant relationship between AC legal experts and quality of accruals. On the other hand, Shankaraiah and Amiri (2017) examined AC and FRQ in India. They utilised a sample of 133 firms for the period of 2002 to 2012. The result from the study shows that AC legal experts have a negative significant impact on DA.

In Nigeria, to the best of the researchers' information, no study has explored the correlation between AC legal expertise and FRQ. Even though none of the Codes of the CG in Nigeria has explicitly discussed the composition of legal experts on the AC, the SEC Code of Corporate Governance (2011) stressed that the first responsibility of the AC is to determine whether the accounting and reporting procedures of the company are in agreement with the legal provisions and approved

ethical practices. Therefore, this study has incorporated legal expertise as one of the constructs of the AC in order to examine its influence on the FRQ in Nigeria.

2.7.6 Female Audit Committee Member

It has been argued that women exhibit more effective communication capabilities and perform better than men in group problem-solving requiring consensus (Good & Wood, 1995). It is also contended that women are highly rated in terms of assimilating transformational leadership fashion (Amran, Saad, Abdullah & Ibrahim, 2016). On the other hand, the Nigerian government has passed into law a National Policy on women under the directorship of the Global Instrument on the Convention of all forms of Discrimination Against Women (Ekpe et al., 2014). This has been done with a view to address the issue of gender equality that has been a debatable topic all over the world. The objective of this policy is to consider men and women as partners in development, and more essentially to challenge any structure that creates gender-based inequalities in the country (Ekpe et al., 2014). Previous studies on gender diversity in psychology and sociology research have documented that females are more risk antagonist, careful, and decent than men (Gold, Hunton & Gomaa, 2009).

Most of the prior studies on AC and FRQ ignore women directors as part of the surrogate of AC characteristics. However, Huang and Thiruvadi (2010) examined the association between AC characteristics and financial fraud in the US. They show that the proportion of women in the AC committee improves the AC diligence which promotes the financial reporting process. In addition, Thiruvadi and Huang (2011)

examined AC gender differences and EM in the US. They used a sample of 320 companies for the period of 2003. They adopted Ashbaugh et al. (2003) as a measure of EM. They found that a female AC member mitigates EM by increasing the negative income decreasing DA. This is affirmed by Firoozi et al. (2016) who report a positive significant association between female AC members and FRQ. Similarly, Dobija, Hryckiewicz and Skorulska (2016) studied how women on monitoring boards enhance the value of the FRQ in Poland. They took a sample of 66 firms for the period of seven years from 2009 to 2015 and used the audit reporting lag as a measure of FRQ. Their finding reveals that giving women a voice increases their role in influencing the FRQ. At the same time, Martinez et al. (2016) studied the influence of female directors and FRQ in Spain. They maintained a sample of 920 firm year observations for the period of 2004 to 2011. The findings reveal that the proportion of female directors (independent female directors on AC and AC chair female directors) enhances further transparency by ensuring that auditors report uncertainty and the scope of the limitation of the qualification in their financial statements. This is affirmed by a recent study of García-Sánchez, Martínez-Ferrero and García-Meca (2017) who utilised 159 listed banks from nine European countries and examined the effect of gender diversity and financial expertise on EQ. The result shows that a female AC member with financial accounting expertise is negatively correlated with discretionary non-loss provisions, and this implies higher accounting quality. This is confirmed by Lara et al. (2017) who studied the roles of women directors on the accounting quality of the listed companies in the UK. Their results show that the proportion of women on the board enhances earnings quality. They further argued that gender bias is negatively correlated to earnings quality.

Similarly, Lenard, Yu, York and Wu (2017) examined the influence of female leadership on the occurrence of fraud litigation of the listed companies in the UK for the period of 2007 to 2013. This study shows that the presence of women on the board reduces the occurrence of financial fraud litigation. More recently, Zalata, Tauringana and Tingbani (2018) examined the influence of the gender of experts in AC over the earnings of the listed firms in the US. They employed a sample consisting of 5660 observations for the period from 2007 to 2013. Their findings show that the percentage of female experts in the audit committee reduces the likelihood of earnings manipulation.

From the emerging markets, Abdullah and Ku-Ismael (2016) examined the effect of women directors, family ownership, and EM in Malaysia for the period of five years from 2008 to 2011. The dependent variable was proxied by the DA extracted from the Kothari et al. (2005) model. The finding of the study shows a negative relationship between women AC members and DA. This is consistent with the findings of Hoang, Abeysekera and Ma (2017) who examined the influence of board diversity on EQ. They utilised a sample of the listed companies in Vietnam for the period of 2005 to 2010. The study reveals a positive significant relationship between board diversity and EQ.

In addition, Ammer and Ahmad-Zaluki (2017) studied the importance of gender multiplicity in exhibiting the quality of the EM forecast in Malaysia. They utilised a sample of 190 listed firms in 2002 to 2012. The study shows that female AC members enhance shareholders' protection and improve the monitoring role of the AC on managers. This is affirmed by Oluoch, Muturi and Florence (2017) who

examined the influence of AC diversity on the FRQ in Kenya. They took a sample of 72 state corporations for the period of 2005. Their findings show that female participation in the AC improves FRQ.

In Nigeria, Ahmed and Che-Ahmad (2016) used 14 listed banks to examine the influence of board attributes and audit reporting lag for the period of 2008 to 2012. The study reveals a positive significant effect between the proportion of females on the board and the audit reporting lag. More so, Eze (2017) examined the effect of corporate governance on EM. They utilised a sample of six food product companies for the periods of 2003 to 2014. The study reveals that the proportion of women on the board is negatively associated with EM. Kibiya, Che-Ahmad and Amran (2016c) studied women directors and the FRQ of the firms in Nigeria. The study shows a positive but non-significant association between women directors and FRQ.

However, looking at the findings of Abdullah and Ku-Ismail (2016), it can be argued that the period covered by the study needs to revisit the more current periods to include current changes in the country's regulations, for example, the more recent version of the Code of Corporate Governance in Malaysia issued in 2012. More so, Ahmed and Che-Ahmad (2016) used 14 listed banks, and Eze (2017) employed six food product firms only. Whilst, Oluoch et al. (2017) used the single period of 2005. Thus, the sample sizes they used may be insufficient to enable the generalisation of their findings.

2.7.7 Audit Committee Stock Ownership

Ownership structure indicates the percentages of equity possessed by particular individuals, families or institutions. It represents the type of ownership that exists in an organisation (Imoleayo, Eddy & Oluku, 2017). The ownership structures in Nigeria are represented by directors' ownership, family ownership, institutional ownership, and foreign ownership. Studies conducted on ownership structures and FRQ show that the ownership structure has a significant influence on the financial reporting practices in Nigeria Adam & Bala, 2015; Farouk & Hassan, 2014; Imoleayo et al., 2017; Iyaniwura & Iyaniwura, 2014). However, none of the above studies has examined AC stock ownership in Nigeria. Consequently, this study has incorporated AC stock ownership because it is shown to be a good motivator in making AC members more watchful, passionate, and vigorous in their monitoring responsibilities (Kibiya et al., 2016c).

AC stock ownership represents the ratio of shares possessed by the AC members. It has been argued that the more shares directors own, the stronger their ambition is to work to increase the value of the entity's stock (Hermalin & Weisbach, 1991). Agency theory posits that equity ownership by directors reduces the tendency of agency problems. Since, increasing the AC equity ownership decreases the likelihood of preventing negative earnings surprises. Which indicates that share investment aligns the interests of members of the AC with the interests of other shareholders (Vafeas, 2005, p.1109). Therefore, AC stock ownership has a significant influence over the oversight monitoring function of the AC (Kibiya et al., 2016a).

Prior studies on AC and FRQ have documented significant evidence on the association between AC stock ownership and FRQ. For instance, Mangena and Pike (2005) considered some recommendations on the AC in the UK to examine the influence of AC equity, size, and expertise on provisional financial disclosures. After utilising 262 sampled firms, the result shows a negative statistical relationship between AC stock ownership and the level of interim disclosure. This indicates that a larger proportion of AC shares reduces the level of interim disclosure of a firm. A study of Bronson, Carcello, Hollingsworth and Neal (2009) is aimed at answering the unanswered question. That is, whether the SOX law of having a 100% independent AC is essential to accomplish the benefits of improving the AC oversight. They studied a sample of 208 firms in the US that were highly financially distressed in the year 1994. They found that AC equity possession is negatively and significantly correlated with the possibility that the auditor provides a going concern report for financially distressed firms and auditor dismissals.

Similarly Yang and Krishnan (2005) show a positive significant relationship between AC stock ownership and total DA. This indicates that the ratio of the shares possessed by the AC increases the tendency of managers engaging in the unethical practices of EM. This is confirmed by Lin et al. (2006) who were motivated by the high profile financial accounting scandals in the US and examined the impact of AC effectiveness on EM. Their finding shows that AC equity possession is negatively associated with the chance that a firm will restate its earnings. In addition, Campbell, Hansen, Simon and Smith (2015) studied the influence of stocks held by the AC during post SOX in the US. They found that AC stock holdings have a positive

significant relationship with the probability of meeting or beating analyst earnings predictions.

From the emerging market, Hamdan et al. (2013) examined the influence of the AC characteristics and earnings quality in Jordan. They extracted data from a secondary source using 50 firms for the period of 2004 to 2009. They adopted Richardson, Sloan, Soliman and Tuna's (2005) model and the Modified Jones model (1995) as proxies for earnings quality. The findings show that AC equity ownership is negatively and significantly related to both Richardson et al.'s (2005) model and the Modified Jones model (1995) as measures of EM.

In Nigeria, Kibiya et al. (2016a) examined the effect of the AC independence, expertise, equity and FRQ in Nigeria. They employed a secondary source of data collection and took a sample of 101 firms listed on the NSE for the five-year period from 2010 to 2014. The dependent variable FRQ was represented by the DA extracted from McNichols' (2002) model. The finding of the study shows that AC stock ownership is negatively and significantly associated with DA. This indicates that a higher proportion of the AC equity possession in Nigerian firms reduces the magnitude of EM. More so, Kibiya et al. (2016b) examined the effect of AC independence, stock ownership, financial expertise, and FRQ. They considered 101 listed companies for the period of 2010 to 2014. The study reveals a positive significant relationship between AC stock ownership and FRQ. This suggests that increasing the percentage of the shares held by the AC enhances their monitoring function and improves the FRQ.

2.7.8 Audit Committee Tenure

Prior studies argued that the longer the directors have to serve on the board, the more they accumulate knowledge and experience thus, making them more effective (Hermalin & Weisbach, 1991). Similarly, Beasley (1996) contended that the longer the directors have served on a company's board, the more extra knowledgeable they are expected to be about the company's practices, and thus have better intelligence to help in safeguarding the investors interests and decrease the financial reporting fraud.

Additionally, Yang and Krishnan (2005) utilised a sample of 896 firm-year observations for the period of 1996 to 2000 to study the influence of the AC and the quarterly EM in the US. After they adopted the Jones (1991) model, they found that AC tenure is negatively associated with EM. The results suggest that the longer the directors stay in the AC the better they act in mitigating EM. Firoozi et al. (2016) examined the impact of foreign directors on AC and FRQ in Canada. A secondary source for the collection was utilised. Data was extracted from the listed companies in the Canadian Compustat for 2008 to 2012. The findings of the study show that AC tenure has a positive significant impact on FRQ. In addition, Dhaliwal et al. (2010) revealed a negative significant correlation between the average tenure of the directors on the AC and accruals quality. This corroborates the findings of Liu and Sun (2010) who examined the role of directors' tenure on the effectiveness of the independent AC. They maintained a sample of the listed companies in the US for the period of 1998 to 2005. The result shows that AC tenure has a negative significant relationship with EM. This is in line with the argument that long-tenured directors have more skills and experience to effectually monitor the FR process.

From the emerging market, Thoopsamut and Jaikengkit (2009) studied the influence of the AC, audit firm size, and quarterly EM of the Thai listed companies. The study reveals a negative significant impact between AC tenure and EM. More so, Jintawattanagul et al. (2016) examined the mediating role of accruals quality on the AC characteristics and the cost of equity of the listed firms in Thailand. They found a negative insignificant association between AC tenure and accruals quality. A recent study of Setiany et al. (2017) explored the effect of AC characteristics on voluntary financial disclosure. They utilised a sample of 100 firms listed in Indonesia for the period of 2009 to 2012. The study reveals a positive significant relationship between AC tenure and financial disclosure. This suggests that the longer tenure of the directors in the AC improves FRQ.

However, literature on AC tenure and financial reporting is limited. At the same time, in Nigeria, previous studies on the AC characteristics and FRQ have ignored audit tenure as one of the proxies of AC. Therefore, since prior literature have documented the importance of directors to serve longer on the board and established evidence on how the length of time on the board enhances FRQ, there is the need to study this variable in different economies and to examine its likely influence on FRQ.

2.7.9 Audit Committee Chairperson

The AC chair is one of the members of the AC who has the utmost responsibility for supervising the financial reporting process. He/she has a high likelihood of being liable in the event of financial failure than other members of the AC (Schmidt &

Wilkins, 2013). It has been argued that the AC chairs are regarded as the chief executive officers (CEOs) of the AC (Ernst & Young, 2011, p. 8). Thus, they are very pivotal in establishing a relationship between the AC and the board of directors as well as with the internal and external auditors (Schmidt & Wilkins, 2013). However, Section 359 (4) of the CAMA (2004) stipulates that the AC shall comprise a mixture of equal representation of directors and shareholders. This uniqueness of the AC formation in Nigeria makes the chairmanship of the committee to be handled by either a director or a shareholder. Therefore, the AC chair has a superior responsibility than other AC members for financial reporting let-downs, and thus plays an essential role in supervising the financial reporting and, basically, influencing the efficacy of the AC (Bromilow & Keller, 2011).

Prior studies have documented that the AC chair plays a significant role in the AC and is considered as a person who is a custodian in directing a group of people (Ernest & Young, 2011). These roles include, amongst others, to ensure that sufficient information goes to and from the AC and to ensure a clear relationship between the committee and management, as well as with the internal/external auditors (Tanyi & Smith, 2015). In this vein, Tanyi and Smith (2015) studied how the amount of the AC chair's status and other AC financial expert status held by the committee's chairman affects his capacity to supervise a firm's financial reporting process. They documented a negative significant relationship between the number of AC chair positions and financial reporting fraud. They also contended that companies with busy AC chairs have considerably higher levels of discretionary accruals, and are more probable to meet or beat the earnings targets. They suggested

that the AC chair's busyness decreases the oversight and monitoring role of the AC on the financial reporting process.

More so, Bruynseels and Cardinaels (2014) examined whether the AC is a management watchdog or personal colleague of the CEOs. They employed a sample of the listed firms after the Sarbanes Oxley Act for the five years from 2004 to 2008. They showed that companies whose AC had social ties to the CEO acquire less audit services and are involved more in earnings management. They also suggested that such companies' auditors are, as well, less probable to provide going-concern opinions or to expose internal control feebleness due to the existence of social ties. Hogan, Schmidt and Thompson (2015) examined the influence of the AC responsibility over the implications of litigation. They showed that AC chairs are less likely to be termed as defendants than other AC members. Recently, Ghafran and Yasmin (2018) studied the influence of the AC chair's monitoring, and financial and experiential expertise over the audit report lag. They utilised a sample of 987 firms for the period of 2007 to 2010. They found that the AC chair's monitoring, tenure, and experiential know-how have inverse significant relationships with the audit reporting delay. They suggested that more effective AC chairs are effective in fast-tracking financial reporting timeliness. Recently, Ghafran and Yasmin (2018) study the influence of AC chair monitoring, financial and experiential expertise on the audit report lag. They utilize a sample of 987 firms for periods of 2007 to 2010. They find that AC chairs monitoring; tenure and experiential know-how have inverse significant relationship with the audit reporting delay. They suggest that more effective AC chairs are effective in fast-tracking financial reporting timeliness.

Moreover, Qu (2018) explored whether AC members and chairs display individual-specific „,styles““ that influence firms“ financial reporting practices. He conducted a survey with different respondents in US firms. His findings provide evidence that AC chairs vary from ordinary members in a number of ways: First, AC chairs are mostly the financial experts of the AC. Moreover, AC chairs are mostly in charge of more official duties, including the schedule for the committees“ meetings, setting the agendas, collaborating with the internal and external auditors, and assessing the performance of the ordinary members. Third, he also documented that the AC chairs are regularly more probable to have had special ties with the managers before joining the committee. This makes them less effective in performing their oversight duties.

However, studies on the AC in Nigeria have examined different attributes of the committee, but they have failed to explore the uniqueness attributed to the formation of the AC in Nigeria that is composed of an equal representation of shareholders and directors. Consequently, this study has examined how the influence of the AC chair (either a director or a shareholder) affects the FRQ of the listed companies in Nigeria. The summary of some of the empirical studies on the relationship between AC characteristics and FRQ is attached in Appendix C.

2.8 Mediating Effect of Audit Quality on Audit Committee

The AC plays an essential role in CG practices by supervising the quality of the audit. Therefore, an effective and independent AC that has relevant expertise is assumed to improve the approaches to the audits, which enhances audit quality and, in turn, improves the FRQ (Cohen et al., 2002; DeFond & Zhang, 2014; Sulaiman,

2017). As such, better audits are imperative for the reliability of the financial reports and are believed to protect the interests of the shareholders and other stakeholders (Sulaiman, 2017). In the light of the above, it is expected that audit quality can stand as a middle variable (mediator) that can be influenced by the AC which, in turn, improves the FRQ. This is because a mediator acts as a middle variable that symbolises the productive instrument in which the predictor construct is able to account for the outcome variable (Baron & Kenny, 1986; Hayes & Scharkow, 2013; Wu & Zumbo, 2008). A simple mediation model exists when the predictor variable is premised to cause the mediator and, in return, the mediator causes the outcome variable (Wu & Zumbo, 2008). This means that a change in the AC will bring about a change in the audit quality and a change in the audit quality will bring about a change in the FRQ. Thus, the mediation effect of audit quality can be based on the complementary effect hypothesis which suggests that the AC is expected to enhance the audit quality proxy which, subsequently enhances FRQ. This assumption provides that external auditors add to the monitoring of FRQ provided by the AC.

The complementary hypothesis explains the demand aspect of audit which is linked to the agency theory that presumes that audit efforts are needed to decrease agency conflicts arising from the interests of the equity holders and managers (Menon & Williams, 1994; Watts & Zimmerman, 1983). Therefore, if it is presumed that more powerful boards will engage better auditors who, in turn, potentially will be more effective monitors of the managers and ensure that appropriate financial reports and disclosure exist (Carcello et al., 2002). Similarly, the auditor is required to

communicate with the AC on all major issues associated with the audit, and with ethical standards (Beattie, Fearnley & Hines, 2013).

2.8.1 Audit Committee Characteristics and Audit Quality

Previous literature suggests that internal governance mechanisms and external audits can be substituted for each other, which implies that greater internal control will be attributed to lower audit fees. However, their empirical findings do not support this opinion (Abbott et al., 2003; Carcello et al., 2002; Cohen et al., 2002; Hay et al., 2008). On the other hand, prior studies on the causal effects of internal governance and external audits always propose that they are complementary; in that, improving internal governance is associated with higher audit quality (Alves, 2013; Miettinen, 2008). This is affirmed by Sulaiman (2017) who examined the influence of the oversight of audit quality in relation to the AC in the UK. He found that the function of the AC in relation to audit quality comprises a thorough assessment of the presentation of the external auditors during the interaction and communication between the two parties. He further demonstrated that the AC acts as an effective monitoring device when supervising the audit quality. He also contended that the behaviour of the AC in supervision are in four key areas (independence, appointment, remuneration, and effectiveness of the audit process) associated to audit quality, as suggested by the UK Code of CG, which delivered mixed findings. More so, AlQadasi and Abidin (2018) studied the influence of the internal corporate governance effectiveness over the audit quality of the listed firms in Malaysia. Their finding supports that there is a complementary link between a firm's governance and

the audit fees. This indicates that a better internal governance mechanism purchases a higher audit quality in their demand for greater assurance.

The foregoing arguments were also empirically documented by Lee and Mande (2005) who studied the association between the AC characteristics and the audit and non-audit service fees in the US. They utilised a sample of 780 listed companies in the year 2000. The findings show that the AC effectiveness proxied by AC independence, meetings, and financial experts are positively related to audit fees and negatively related to the possibility that the auditor will issue a qualified opinion. This has been affirmed by the study of Boo and Sharma (2008) who examined the relationship between internal governance mechanisms and audit service and non-audit service fees in the US. They utilised a sample of 469 listed firms in the US for the period of 2001. Their result shows that AC independence is positively and significantly related to audit fees and Big 5 auditors. More so, Ben Ali and Lesage (2013) studied the influence of the nature of controlling shareholders over the audit price of the listed companies in France. They utilised a sample of 244 firms for the period of 2006 to 2008. The study shows that there is a positive significant relationship between institutional shareholdings and audit fees. This indicates that institutional shareholders serve as monitors by demanding higher audit quality in exchange for greater audit effort.

On the contrary, Ittonen, Miettinen and Vähämaa (2010) examined the influence of the female AC members on audit fees. They employed a sample of 500 companies in the US. The study reveals that female AC chairs are associated with lower audit fees. They argued from a preview of the demand perspective that female AC chairs

decrease the desire for the assurance delivered by external auditors. On the other hand, from the supply-side perception, AC members and female chairs may reduce audit fees by influencing the audit assessment risk or by enhancing the effectiveness of the internal control system or by generally improving the credibility of the financial reports. This is affirmed by Xiang, Qin and Peterson (2015) who examined gender diversity in AC and audit fees. They took a sample of Chinese listed firms for the period of 2004 to 2007. The study reveals a negative significant relationship between AC gender and audit fees. It implies that an AC consisting of men and women is associated with lower audit fees.

In contrast, it has been argued that low audit fees force the audit team to decrease tests, which will adversely affect audit quality (Cohen et al., 2007). Similarly, the agency theory can also explain the complementary effect and substitution effect hypotheses of the audit. The complementary effect hypothesis assumes that external auditors play a significant function in corporate governance which serves as a complementary mechanism for enhancing the legal protection of outside shareholders (Huang, 2006; Choi & Wang, 2003). This will, in turn, reduce the agency complicity between the company's insiders and outside shareholders. Since outside shareholders depend heavily on external auditors' monitoring efforts (Ball et al., 2000). Consequently, a more active AC will demand higher external audit efforts with an exchange for higher audit fees in order to protect the corporate reputation, promote shareholders' interests, and strengthen the credibility of the financial reporting (Carcello et al., 2002; Huang, 2006). The substitution effect hypothesis suggests that for some entities, a high quality external auditing acts as a substitute for

legal protection to minimise agency conflicts between company insiders and outside shareholders in a weak legal environment (Choi & Wang, 2003). In that, such entities in a weak legal environment will have a high demand for better auditing than companies in a strong legal environment (Gomes, 2000; Klapper & Love, 2004).

On the other hand, an inverse relationship between governance devices and audit quality could be anticipated if good governance can substitute for external auditing, leading to a decrease in audit fees (Hay et al., 2006). From the foregoing, it is observed that an effective AC will appeal for a higher level of assurance. This is possible by influencing external auditors to provide higher quality audits by hiring Big 4 auditors and by paying them higher audit fees which, in turn, will improve FRQ.

Furthermore, Krishnan and Visvanathan (2009) examined how auditors value AC expertise by taking the instance of accounting versus non-accounting experts. The study reveals that AC meetings and size are positively and significantly associated with audit fees. This indicates that an active AC demands greater efforts on the part of auditors and thus, is associated with higher fees. Similarly, Hoitash and Hoitash (2009) examined the influence of the AC on external auditors in the US. The study shows that audits of AC size, AC meetings, and AC financial accounting experts have positive significant relationships with audit fees. In addition, Cohen, Hoitash, Krishnamoorthy and Wright (2014) argued that AC accounting experts require more audit assurance by paying higher audit fees. They empirically found that AC financial accounting and supervisory experts are significantly and positively related to audit fees. This was observed by the recent study of Kim, Segal, Segal and

Yoonseok (2016) who explored the three-sided relationship between AC characteristics, audit inputs, and FRQ. They utilised a sample of the listed companies in the US for the period of 2001 to 2006. The study reveals a positive significant influence between AC size, financial accounting experts, and audit fees.

Similarly, Redmayne et al. (2011) used 204 firms during the period of 1998 to 2000 and examined the relationship between the AC and the audit fees in the public sector in New Zealand. The study found a positive statistical relationship between AC formation and audit fees. In addition, Goodwin-Stewart and Kent (2006) studied the association of external audit fees, AC characteristics, and internal audits. They employed a sample of 401 listed companies in Australia. The AC was proxied by AC meetings, AC independence, and AC financial expertise. Their result shows that a higher audit fee is related to AC existence. They contended that a higher audit fee is associated with more frequent meetings of the AC. They also argued that audit fees are associated with the committees' expertise when both meetings and independence are low. They further suggested that AC independence and expertise perform a complimentary function in enhancing the effectiveness of the AC with regards to audit quality. However, they suggested that such a relationship is clearly complex and, therefore, calls for further research.

Additionally, Zaman, Hudaib and Haniffa (2011) examined the influence of corporate governance over audit fees. The study shows a positive significant relationship between AC effectiveness (consisting of AC size, meeting independence, and financial expertise) and audit fees. This is an indication that an effective AC performs better monitoring which produces more audit coverage and

pays higher audit fees. This further suggests that a larger AC that is composed of at least one member with financial expertise, all independent non-executive directors, and meets frequently in a year incline to pay higher audit fees. This is done to increase the audit coverage required by such an AC to improve audit quality. More recently, Aldamen, Hollindale and Ziegelmayer (2016) examined the influence of female AC members on the audit fees of listed firms in Australia. They utilised a sample of 624 firms in 2011. The study reveals a positive significant association between female AC members and audit fees. This suggests that female representation on the AC increases audit fees in demanding for more audit efforts. This is confirmed by the most recent study of Lai, Srinidhi and Tsui (2017) who examined the effect of board gender diversity on audit fees in the US. The results indicate that female AC members demand higher audit quality by paying higher audit fees than the male directors in the AC. Lai et al. (2017) examined the effect of board gender diversity on audit fees in the US. The study shows that a female AC is positively related to audit fees and is more likely to hire specialist auditors than the male directors. Furthermore, Marini et al. (2016) examined the effect of family companies, AC and audit fees. They utilised a sample of 216 listed firms in Malaysia for the year 2009. The study shows that AC independence, diligence and size are positively and significantly related to audit fees.

In Nigeria, Abdulmalik and Che-Ahmad (2016) examined the influence of board diversity over the audit fees of the listed firms. They used unbalanced data with a sample of 65 and 58 companies for the period of 2010 to 2011, respectively. The findings show that board diversity has a positive significant influence over audit fees.

This implies that an active board will be more cautious in their monitoring function and, accordingly, make additional demands in an audit effort. Similarly, Naser and Hassan (2016), explored the determinants of audit fees amongst the listed companies in Dubai. They maintained a sample of 22 companies for the period of 2011. The study reveals a positive significant association between AC independence and audit fees.

Therefore, regulatory authorities and investors often question the job of both AC and external auditors because the audited financial statements have been proved to be false and misleading in many of the recent financial scandals, such as Enron and WorldCom. For that reason, since, the AC chooses the external auditor whereas the external auditor reports to the AC, there is possibility that both two monitoring devices may operate jointly to limit earnings manipulation and improve FRQ (Alves, 2013). Thus, a more active, expert, and independent board may demand distinctively higher quality audits in order to safeguard its reputation capital, evade legal liability, and encourage investor interest, which requires greater assurance, by paying higher audit fees in exchange for higher audit efforts (Carcello et al., 2002). Thus, it is expected that the AC increases audit quality which will, in turn, enhance financial reporting. The summary of some of the empirical studies on the relationship between AC characteristics and audit quality is attached in Appendix D.

2.8.2 Audit Quality and Financial Reporting Quality

Audit quality has been defined as greater assurance of high FRQ. For instance, DeAngelo (1981 p. 186) defined audit quality as the “*market-assessed joint*

probability that a given auditor will both detect a breach in the client's accounting system, and report the breach". Thus, better auditing is recognised for its independent assurance of the trustworthiness of the financial statements, which enhances investors' protection and improves their confidence. Audit quality enhances FRQ by improving the credibility of the financial reports (DeFond & Zhang, 2014; Gaynor et al., 2016). DeFond and Zhang (2014) argued that audit quality is a continuous construct of FRQ. They also contended that FRQ is a function of audit quality. This implies that audit quality and FRQ are jointly determinable outcomes. Therefore, several proxies have been employed by various researchers as measures of audit quality. However, there is an inconclusive argument on which measures are best and, thus little methodical direction on the comparability of one surrogate versus another (DeFond & Zhang, 2014; Gaynor et al., 2016). Consequently, DeFond and Zhang (2014) classified audit quality into perception-based, input-based, and output-based measurements. The perception-based measurements comprise the Big 4 auditors, earnings responses, and stock market reactions. The output-based measurements include restatements, audit opinions, accruals quality, accounting conservatism, market reactions, Big 4 auditors, and audit fees. On the other hand, the input-based measurements consist of audit fees, audit firm size proxied by Big 4 auditors, and audit fees. However, some of these measurements have been criticised because they fail to capture poor audit quality, for example, restatements.

In light of the foregoing, this current study has used audit fees and Big 4 auditors as proxies for audit quality because of the following reasons:

- i. They are the only constructs that appear in all of the classifications.
- ii. Audit firm size represented by Big 4 auditors is a strong proxy for audit quality because larger auditors are believed to have strong motivations and better competencies to deliver high quality audits (DeAngelo, 1981).
- iii. They have relatively greater construct validity (DeFond & Zhang, 2014).
- iv. Audit fee is a distinctive construct because it captures audit effort that is naturally related to audit quality (DeFond & Zhang, 2014; Gaynor et al., 2016).
- v. Audit fee is a unique construct that is an outcome of both the demand and supply hypotheses. That is, an auditor cannot single-handedly increase audit fees for extra effort without a corresponding increase in audit quality (Cohen et al., 2002; DeFond & Zhang, 2014).
- vi. Audit market in Nigeria is vastly concentrated around Big 4 auditors thus, Big 4 auditors are associated to higher audit fees (Asien, 2014).

The foregoing arguments are tested by most of the previous literature on audit quality and FRQ. They show that a high audit fee and engagement of Big 4 auditors are associated with lower EM and a higher quality of financial reporting. For instance, Franke, Johnson and Nelson (2002) studied the effect of audit fees and EM in the US. The study reveals that audit fees and Big 5 auditors have negative significant relationships with EM. This is affirmed by Hoitash, Markelevich and Barragato

(2007) who applied 13,860 firm-year observations and determined the influence of audit fees and audit quality in the US. The findings reveal a negatively significant correlation between audit fees and DA. Mitra, Deis and Hossain (2009) examined the relationship between the audit fees and FRQ of the Big 5 client firms in US. They employed a sample of 6,852 firm-year observations for the period of 2000 to 2005. Their finding reveals that audit fees reduce the likelihood of abnormal accruals and thus, increase earnings quality. Carmona, Momparler and Lassala (2015) studied the influence of audit fees and audit quality in Spain. The finding indicates that the audit fee has a negative and significant association with abnormal accruals. More so, Big 4 auditors also have a negative but insignificant relation with DA. On the other hand, Gao and Huang (2016) and Bamahros and Bhasin (2016) contended that Big 4 auditors have positive significant influence on unexpected accrual and restatement. Alzoubi (2016) confirmed that EM is significantly lower amongst firms that purchase the service of Big 4 auditors than firms that acquire non-Big 4 auditors.

Recently, Asthana, Khurana and Raman (2018) explored how fee competition amongst Big 4 auditors effect audit quality in the US. They reveal that fee competitions are cherished as a vital mechanism for enhancing the quality of audits in the much concentrated US audit market. In addition, Knechel, Mintchik, Pevzner and Velury (2018) explored the influences of extensive trust and public cooperation on the Big 4 auditors and audit fees amongst different countries in the world. They show that societies with higher trust and public cooperation are more likely to put a high price on a robust audit function and demand higher audit services. They documented that the existence of Big 4 auditors is robust in nations with higher

levels of public cooperation and thus, countries with higher trust and public cooperation pay higher audit fees. This premise recommends that nations with higher pervasive trust or higher public cooperation stress higher prices on the audit services and thus, be ready to pay higher audit fees. Al-Dhamari, Al-Gamrh, Ismail and Ismail (2018) studied the association between the related party transactions and audit fees of the listed firms in Malaysia. They reveal that audit fees are higher for companies that embark on related party transactions comprising the procurement and sale of assets, merchandise, and services.

From emerging markets, Saleem and Alzhobi (2016) conducted a study on audit quality and EM in Jordan. The study established that audit quality is inversely related to EM. The result from the random model reveals that the audit fee has a negative significant influence on DA. They further stress that EM is more minimal in companies that engage the service of Big 4 auditors than firms that hire non-Big 4 auditors. Similarly, Bamahros and Wan Hussin (2015) examined non-audit services, audit firm tenure, and EM by utilising a sample of 525 public firms in Malaysia in 2009. The findings of the study show that the audit fee has a negative insignificant association on the total and current discretionary accruals.

Furthermore, Abidin and Ahmad-Zaluki (2012) examined the influence of auditor industrial specialisation and reporting lag. They employed a sample of 873 listed firms in Malaysia for the year 2007. They found that Big 4 auditors are negatively and statistically related to the audit reporting lag. This implies that companies that are audited by Big 4 auditors have a greater propensity for faster reporting. Whilst auditor specialists are not significantly related to faster reporting. More so, Al-

Rassas and Kamardin (2015) examined the influence of external audit qualities and AC characteristics in Malaysia. The dependent variable was proxied by the DA extracted from Dechow et al. (1995) and Yoon, et al. (2006). After running the multivariate regressions, the findings of the study revealed that the audit fee was negatively and significantly correlated with the DA in the second model, but not significant in the first model. From the foregoing, it is observed that audit fees can be a proxy for audit quality and, consequently, enhance FRQ. This is confirmed by the recent study of Nawaiseh (2016) who examined the impact of external auditors on EM in Jordan after running panel data; the study revealed a negative significant impact between audit fees and DA.

In Nigeria, Aliyu, Musa and Zachariah (2015) studied the impact of audit quality and EM. They employed a sample of ten banks for the period of 2006 to 2013. The result from the OLS reveals a positive significant impact between audit fees and abnormal loan loss provisions. This indicates that auditors' financial dependence increases the rate of EM in Nigerian banks. Whilst Big 4 auditors are inversely and significantly related to abnormal loan loss provisions. This was observed by Eriabie and Dabor (2017) who examined the effect of audit quality and EM in Nigeria. They utilised a sample of 18 banks for the period of 2005 to 2010. The study showed that audit quality is negatively associated to EM. This has been affirmed by Ndubuisi and Ezechukwu (2017) who examined the determinants of audit quality amongst the listed banks in Nigeria. They took a sample of 11 banks for the period of 2010 to 2015. The findings reveal that audit fees and audit firm size proxied by Big 4 audits have a positive significant influence over audit quality.

On the contrary, Okolie (2014) studied the influence of auditors' independence and EM. They applied a sample of 57 firms listed on the NSE for 2006 to 2011. The results from the random model indicate that the audit fee is significantly and negatively related to DA. This is consistent with the study of Abdulmalik and Che-Ahmad (2016) who examined the effect of audit fees, Big 4 auditors, and corporate governance FRQ in Nigeria. They extracted data from the annual reports of 89 listed firms for the periods of 2008 to 2013. They found that audit fees and Big 4 auditors have a negative significant impact with abnormal accruals. This suggests that the excessive fees paid to external auditors in Nigeria do not compromise their independence and that the Big 4 auditors reduce the extent of abnormal accruals of the Nigerian firms. This is confirmed by the recent study of Abdul-Rahman, Benjamin and Olayinka (2017) who studied the influence of audit fees and audit quality in Nigeria. They utilised a sample of the listed cement firms for the period of 2010 to 2015. The study shows that audit fees have a positive significant association with audit quality.

It can be observed that the inconsistency of the findings between the above studies may be due to the different sample sizes used by the authors or differences in the unit of analysis. This is because Aliyu et al. (2015) used only ten banks, which may be considered too small for the generalisation of the findings. Whilst, Okolie (2014) and Abdulmalik and Che-Ahmad (2016) adopted 57 and 89 listed non-financial companies, respectively. However, it can be argued that banks are offshoots of the financial sector which have characteristics and regulations different from other sectors of the economy. Similarly, most of the above studies focused on the direct

correlation between audit quality and FRQ. Therefore, the present complex financial and economic environment requires the application of complex methods to examine the actual impact between audit quality and FRQ. The summary of some of the empirical studies on the relationship between audit quality and FRQ is attached in Appendix E.

2.9 Literature Gap

Apart from Abernathy et al. (2014) who considered public accounting experts and Krishnan et al. (2011) who examined legal experts, little attention has been given by prior studies about various kinds of expertise in the AC. However, regulators and policy makers have focused on the effect of various kinds of financial expertise and their influence on AC effectiveness. This study has attempted to fill these gaps that exist in the literature by incorporating these types of expertise (financial accounting and legal expertise) and examining their influence on the FRQ in Nigeria. This is because there were considerable arguments by investors, regulators, and academic communities concerning the idea of whether only members with direct accounting skills would be considered as financial experts (Cohen et al., 2014). In addition, AC legal expertise has been chosen because legal expertise in the AC could assist in ensuring better FRQ since the quality of financial reporting can be related to legal liability threats, and their legal backgrounds require them to be more vigilant to such threats (Krishnan et al., 2011). Similarly, from the literature review, it has been discovered that prior studies in Nigeria did not explore AC tenure, AC chair, or some specific attributes of AC expertise (financial accounting experts and legal experts).

This study has attempted to fill these gaps from the Nigerian context by examining the influence of these variables on FRQ.

Furthermore, prior literature that determined the influence of corporate governance or AC and audit quality on FRQ gave little attention to income smoothing as a measure of FRQ. Notwithstanding the fact that smoothed earnings are less informative to shareholders and other stakeholders. Since, they are of lower earnings quality (Ayres, 1994). For that reason, this study has employed Eckel's (1981) techniques of measuring income smoothing. However, Eckel (1981) used only one type of income (net income), Yang et al. (2012) used two categories of income (income from operation and net income), and Ashari et al. (1994) used three categories of income (income from operation, net income and income before extraordinary items). Yet, from the above mentioned studies only Yang et al. (2012) examined the influence of corporate governance and income smoothing. Similarly, none of these studies have considered the relationship between AC characteristics and income smoothing of firms. Therefore, this study has examined the influence of AC characteristics on income the smoothing behaviour of firms.

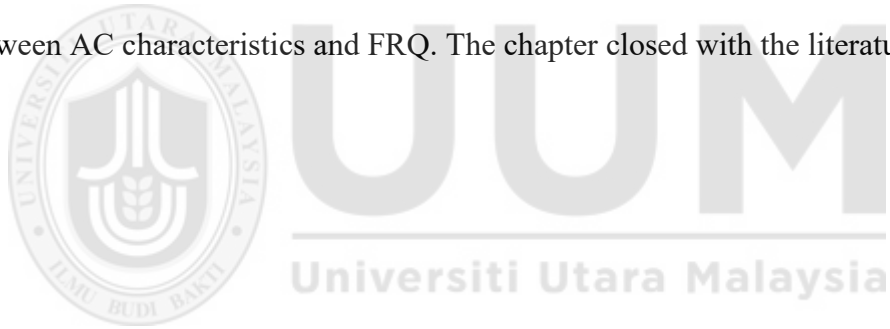
Overall, from the literature, there have been limited studies (to the best of the researcher's knowledge) that have used audit quality to mediate the relationship between AC characteristics and FRQ. For example, Miko (2016) examined the influence of the corporate governance, firm attributes, and EM of the listed companies in Nigeria. He employed accrual models as measures of EM. However, the study considered only the DA measures as proxies for EM. Therefore, there is the need to consider other measures of earnings manipulations in Nigeria, for example,

income smoothing, particularly in the light of the recent argument which reveals that firms have exhibited a significant increase in income smoothing after the IFRS (Ahmed, Neel & Wang, 2013; Chen, Tang, Jiang & Lin, 2010; Hail & Wysocki, 2010; and Kaserer & Klingler, 2008). This has been affirmed by Chen et al. (2010) who found that there has been a lower magnitude of DA after the IFRS amongst firms from 15 European countries, but the firms were involved in more income smoothing in the post-IFRS periods.

More so, in Nigeria, Ozili (2015) also contended that the listed banks in Nigeria smoothed reported earnings over time during the periods of voluntary IFRS adoption, and suggested that the IFRS adoption reduces the reliability of loan loss provisions. Additionally, most of the prior studies in Nigeria considered the moderation analysis, for instance, Miko (2016) considered the interaction of institutional shareholdings on the relationships between three attributes of AC (size, independence, and financial expertise) and FRQ. Consequently, this study has introduced audit quality to mediate the relationship between AC characteristics and FRQ. However, the mediation analysis has provided a better explanation about how the influence of the AC affects audit quality which, in return, affects FRQ. However, the moderation analysis cannot establish this, because a moderator clarifies when a predictor variable most strongly or weakly causes a dependent variable; whereas, a mediator clarifies the procedure of why and how a cause-and-effect occurs (Baron & Kenny, 1986; Wu & Zumbo, 2008).

2.10 Summary of the Chapter

The chapter highlighted issues related to FRQ and AC. The concept of FRQ, measures of FRQ, and FRQ in Nigeria were discussed in this chapter. The chapter also highlighted the concept of corporate governance as well as corporate governance practices in Nigeria. The modifications and reforms of the Nigerian Codes of Corporate Governance were also discussed in this chapter. It also discussed the previous empirical studies on the association between AC characteristics and FRQ, audit quality and AC, and audit quality and FRQ in different economies from developed to developing countries, and closed with some similar studies in Nigeria. The chapter also discussed the mediating effect of audit quality on the relationship between AC characteristics and FRQ. The chapter closed with the literature gap.



CHAPTER THREE

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

3.1 Introduction

Based on the earlier chapters, this chapter discusses the theoretical framework that supports the variables used in the study. In particular, the chapter highlights and links the agency theory, resource dependence theory, institutional theory, signaling theory, and feminist theory with the variables used in the study. Based on the foregoing theories, the supportive literature hypotheses were developed accordingly. Finally, it closes with the summary of the chapter.

3.2 Theoretical Framework

The foregoing chapter discussed the review of relevant literature. This section focuses on the review of relevant theoretical frameworks underpinning the variables of the study. As such, the prior literature provided in the previous chapter and the theoretical frameworks that will be discussed in this section were used to form the bases for the hypotheses development that were expected to be tested in the study. The theoretical frameworks that were adopted in this study were the agency theory, resource dependence theory (as the main theories), institutional theory, signaling theory, and feminist theory (as supporting theories).

3.2.1 Agency Theory

The agency theory has been widely used in managerial studies and it appears to be the dominant paradigm in several facets of corporate finance and, apparently, corporate governance research (Dedman, 2004; Davis, Schoorman & Donaldson, 1997). The agency theory originated from the study of Berle and Means (1932). They investigated the concept of agency and its application towards the advancement of large companies. They argued that the interests of the management and directors are distinct from that of the owners of the firm. They applied the concept of the principal agent and explained the provenance of these conflicts. Similarly, Jensen and Meckling (1976) advanced the study of Berle and Means (1932) to formally develop the concept of the agency theory. They contended that corporations are organised to reduce the cost of getting agents (agency costs) by complying with the interests of the principal. They generally acknowledged that managers and owners in any given situation have different goals and motivations which can be manifest in different ways. This indicates that there is always conflict of interest amongst the parties. It has been argued that dissimilarities in the scope and nature of the information between managers and shareholders complicate the agency problem. Managers are often more engaged in the commercial activities for a longer period than the shareholders and, consequently, become more informed about the corporate activities than the owners which gives room for information asymmetry (Aboody & Lev, 2000). Thus, the management might prioritise their own interests over the shareholders' interests of wealth maximising.

Similarly, agency costs arise because of the differences between ownership and the control from management, which is a consequence of information asymmetry between the management and the owners. However, it has been argued that managers' attempts to smooth the permanent variability of cash flow will result in less timeliness and less information on earnings figures. Whereas, less timeliness and less informativeness of earnings figures indicates information asymmetry and less value relevance, respectively (Dechow et al., 2010). The agency cost increases the demand for monitoring mechanisms that will provide assurance of the managements' performance in accordance with the contract (Huang, 2006). The agency theory presumes that monitoring devices have to align with the interests of the management and the owners in order to reduce the conflict of interest as well as any feasible managers' opportunistic behaviours that might arise (Jensen & Meckling, 1976).

Several governance devices can be employed to align the interests of the owners and managers. These include internal devices like boards of directors, ownership concentration, and external mechanisms like the external auditors and product market competition (Fama & Jensen, 1983). Hence, a perfect combination of mechanisms being employed can be considered a composite where the effectiveness of one mechanism relies on the effectiveness of the other (Davis & Useem, 2002). For instance, when external auditors observe that they cannot depend on an internal mechanism like board of directors or AC, to assist in controlling FRQ, they increase the audit effort by charging higher audit fees (Cohen & Hanno, 2000; Bédard, Chtourou & Courteau, 2004; Kaplan & Reckers, 1985). As such, the AC, together with the external auditors, can minimise the opportunistic reporting by management

(Defond & Jiambalvo, 1991). Therefore, it is expected that companies with strong ACs and purchase higher audit quality will have a lower likelihood of EM than companies without ACs and purchase less auditing services.

3.2.2 Resource Dependence Theory

The resource dependence theory was rooted from the publication of Pfeffer and Salancik (1978). Since then, the theory has been one of the prominent theories in strategic management, organisational theory and, more specifically, corporate board of directors (Hillman, Withers & Collins, 2009). With reference to this theory, Pfeffer and Salancik (1978) argued that organisation is linked to external resources. They contended that organisations rely on resources which are a fundamental of power. Then, those external resources become essential to the organisation which needs those resources proportionately. As such, organisations rely on several resources, such as materials, capital, and labour. The resource dependence theory also suggests that the board of directors enables companies to either reduce their dependence or gain resources. Thus, companies employ boards of directors to serve as mechanisms through which they incorporate important external organisations with which they are interdependent (Pfeffer, 1972). The theory considers the contribution of governance devices as a vehicle to aid a company in achieving its strategic objectives (Cohen et al., 2007). This is supported by Hillman, Cannella and Paetzold (2000) who postulated that management and investors may depend on the board as a vehicle to access and manage limited resources. The resource dependence theory also deduces that the directors' roles are more than just minimising uncertainty as they provide valuable expertise as well as advice in several strategic areas.

Advocates of the resource dependence theory consider the board of directors as an important organisational body that would provide crucial resources for the firm, protect the firm from environmental uncertainties, and minimise transaction costs in maintaining external relationships (Huse, 2005; Matthew, Lynall, Golden & Hillman, 2003). This is supported by Erakovic and Goel (2008) who confirmed that decision makers, such as management and the board, have an effective role in striving for external resources, minimising environmental uncertainties, and establishing numerous links with other companies. Therefore, Provan, Beyer and Kruytbosch (1980) argued within the purview of the resource dependence theory that, having members on the boards who otherwise serve on the boards of various organisations, including the boards' ACs may be significant for the organisation's survival.

3.2.3 Institutional Theory

The institutional theory is basically concerned with a company's interaction with the institutional environment, the impact of social expectations with the company, as well as the inclusion of these expectations as demonstrated in the organisational characteristics and practices (Martinez & Dacin, 1999). It recognises the functions of external pressures in architecting organisational activities and affirms the significance of legitimacy (Berrone, Gelabert, Fosfuri & Gomez-Mejia, 2007). The institutional theory focuses on a complete set of organisational acts, such as the institutional environment and ritualistic structures that function within this active display. The theory also posits that for understanding corporate governance at the time of a doubtful and uncertain environment, the AC and the board may emphasise symbolic and ritualistic roles. The ritualistic role is the AC's formal task to hire and

fire external auditors. The symbolic role relates to the redefinition of audit client to mean AC rather than corporate management (Cohen, Krishnamoorthy & Wright, 2008).

3.2.4 Signaling Theory

The signaling theory originated from the work of Spence (1973). The theory was developed in order to describe behaviour in the labour market. According to the author, signals are alterable and thus, hypothetically subject to manipulation by the job applicant. He assumed that education is costly and that individuals invest in education when there is an adequate return (obtainable wage) and then, they are likely to select signals in order to maximise the alteration between offered wages and signaling cost. He also contended that managers might not properly understand their employee's productivity whereas employees with higher abilities could signal their abilities to the employer in order to gain benefits in return. More so, the signaling theory postulates that managers disclose information in order to lessen information asymmetry and also to signal to outsiders that a company is doing better than its peers (Miller, 2002; Spence, 1973). Though, it is also possible that underperforming firms may provide sound disclosure in order to lessen underperformance. However, it is possible that managers will deliver truthful information in spite of bearing the signaling cost. Since, managers' disclosure choices are also influenced by the marginal benefit to be gained from reducing the information asymmetry in the market (Abhayawansa & Abeysekera, 2009). More so, managers may smooth income to signal its projections about future performance in a situation where earnings forecasts are not obtainable (Albrecht & Richardson, 1990).

Another reason that makes firms smooth income is the incentive motive, because managers may wish to smooth earnings in order to satisfy the owners of the firms to secure a position within the firm (Koch, 1981). The signaling theory also postulates that directors who believe that their firm can perform better than other firms would want to signal this to the investors in order to attract more investments. These explain the information perspective of earnings management. In this situation, EM can be employed to send additional signals on the position of the company to outsiders.

Adopting this theory to the present study, it was expected that a company with sound corporate governance practices could send signals to shareholders that the management is acting to maximise shareholder wealth. This would promote investors' confidence which might lead to an increase in the firm's share price (Beiner, Drobetz, Schmid & Zimmermann, 2006). In addition, increasing the presence of independent non-executive directors on the board may signal to owners that the company has strong corporate governance which will eventually promote investors' protection (Chen, Chen & Wei, 2009). Therefore, adopting from the foregoing arguments, it may be deduced that a company with an effective AC (independent AC) can signal to the stakeholders that it has effective monitors and this will invariably promote investors' protection and improve their confidence about the credibility of the financial reports.

3.2.5 Feminist Theory

According to Fischer, Reuber and Dyke (1993) there are two perceptions in behavioural and entrepreneurial research on gender and sex. These include the liberal

feminist and social feminist theories. According to them, the liberal feminist perspective originated from the liberal political philosophy. It is based on the presumption that women are equally talented and rational, hence, they are complete human beings like men. The theory posits that women are only deprived compared to men as a result of obvious discrimination and systemic influence that keep them away from receiving vital resources, such as business education and experience. The liberal feminist theory also suggests that if women were to be given equal opportunities, men and women would utilise their potentials rationally and more equally, and hence, the psychological dissimilarities would reduce and later disappear. One major implicit postulation of this theory is that women will develop to become more like men, since the genesis for any existing dissimilarity is presumed to be women's relative deprivation (Fischer et al.,1993). Studies that have been conducted to validate this theory have established little evidence that the obvious discrimination and systemic influence keeping women away from receiving vital resources, such as business education and experience, hinder their capabilities to succeed in business (Belcourt, 1991).

The social feminist perspectives, on the other hand, are of the view that women and men differ intrinsically as a result of differences in early and current socialisation. The social feminist theory also suggests that the inherent difference between women and men does not mean that women are inferior to men since men and women may develop differently, but with equally effective qualities (Fischer et al.,1993). Prior studies conducted on female socialised qualities and ethics are consistent with the social feminist theory. They contend that the little difference between men and

women has less influence on their business performance (Chrisman, Carsrud, DeCastro & Herron, 1990; Riding & Swift, 1990). Consequently, in light of the above-mentioned arguments, this study has adopted both the liberal feminist theory and the social feminist theory because it was expected that gender diversity in the AC did not mean that female directors in the AC are inferior to men, because women would have similar functions like their men counterparts in minimising EM and improving financial reporting quality.

In light of the above-mentioned fact, this study has incorporated all of the five theories: the agency theory, resource dependence theory, institutional theory, signaling theory, and feminist theory, to underpin the relationship between the variables of AC characteristics (size, independence, meetings, financial accounting expertise, legal expertise, female, stock ownership, tenure and chair), the mediator audit quality, and the dependent variable of FRQ. The agency theory and resource dependence theory were employed to guide the interrelationship between AC and FRQ. This is because the theories have been used by prior studies to explain how AC can improve FRQ (Abernathy et al., 2014; Baxter & Cotter, 2009; Cohen et al., 2008; Dhaliwal et al., 2010; Bédard et al., 2004; Yang & Krishnan, 2005). However, only a few of the prior studies have combined both the agency theory and resource dependence theory. Additionally, most of the studies on AC did not use multiple theories (Brennan & Kirwan, 2015). Thus, there is need for theoretical pluralism in the study of the AC (Gendron, 2009). This is because, most of the previous studies on the AC mostly, explicitly or implicitly, adopt the agency theory to underpin their

variables of interest from the AC (Brennan & Kirwan, 2015; Carcello, Hermanson & Ye, 2011).

The institutional theory and agency theory have been adopted to explain the interrelation between audit quality and AC, and how these causal effects influence FRQ. In addition, the signaling theory has been used to serve as the supportive theory in light of the arguments that a company with sound corporate governance practices can send a signal to shareholders that the management is acting to maximise shareholder wealth (Beiner et al., 2006; Chen et al., 2009) and this promotes investors' confidence about the credibility of the financial reports. More so, the social feminist theory has been employed to underpin the female AC members because it was expected that female directors in the AC would have similar functions like their men counterparts in minimising EM in and improving financial reporting quality. Consequently, the framework of the study was in line with the objectives of the study as depicted in Figure 3.1. The diagram incorporates all the variables of the study consistent with the agency theory, resource dependence theory, signaling theory, feminist theory and the institutional theory. The motivation of the present study has been to determine the relationship between the AC characteristics and FRQ in Nigeria. There are studies on AC and FRQ in Nigeria. However, there has been a lack of studies that incorporate such characteristics of AC (size, independence, meetings, financial accounting expert, legal expert, female, stock ownership, tenure, and chair) in the Nigerian firms. As such, the study has become necessary in Nigeria. More so, the study is amongst the pioneers that examine the mediating role of audit quality between AC characteristics and FRQ.

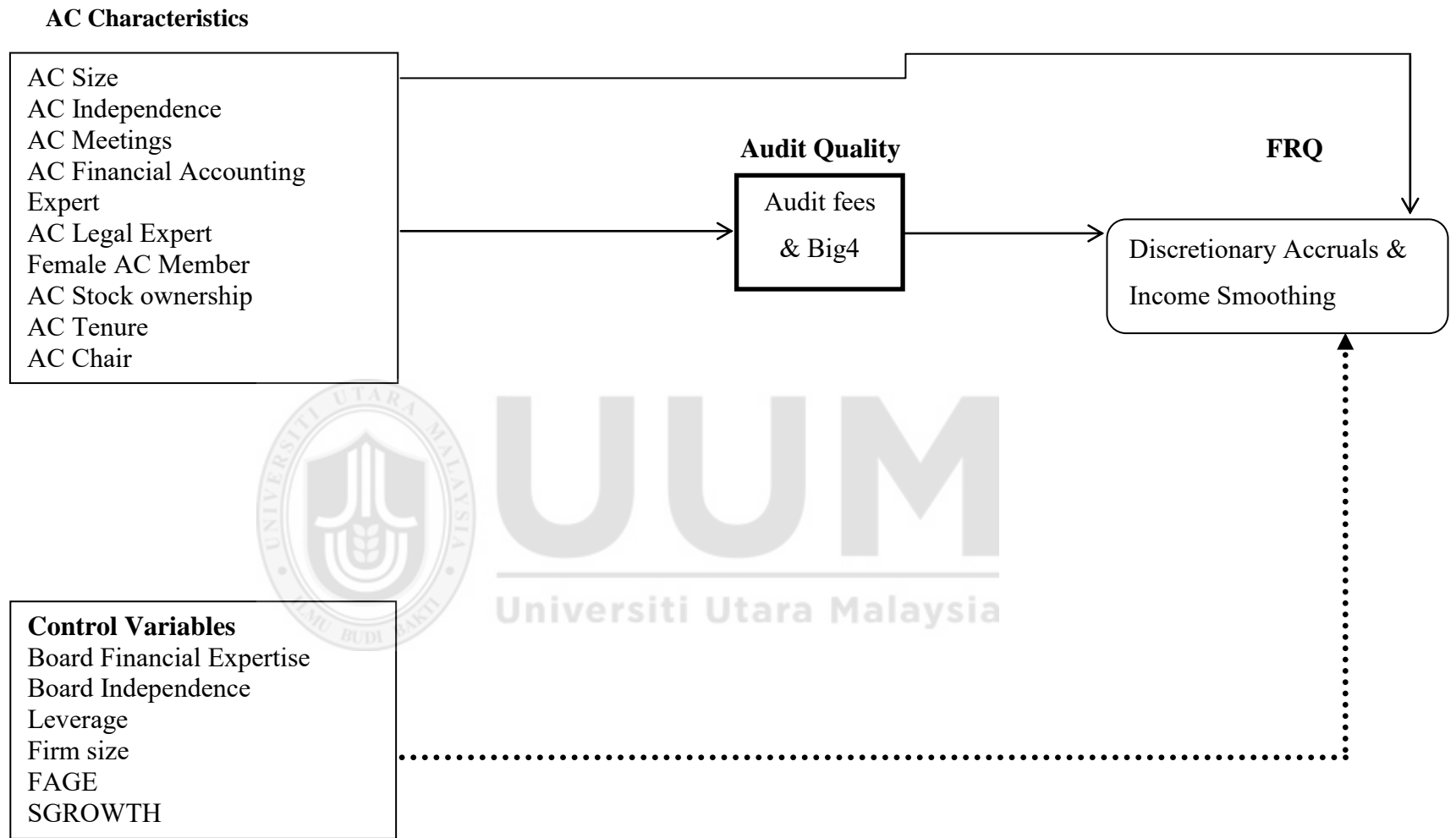


Figure 3.1
Conceptual Framework of the Mediating Effect of Audit Quality on the Link between AC Characteristics and FRQ

3.3 Hypotheses Development

Previous studies have explained the impact of AC characteristics on FRQ. The five theories: agency theory, resource dependence theory, institutional theory, signaling theory, and feminist theory underpinning the study have also established explanations on the influence of AC characteristics and FRQ. Therefore, the hypotheses development of the study has been based on these theories and some of the empirical findings from prior literature.

3.3.1 Audit Committee Size and Financial Reporting Quality

With respect to the resource dependence theory, AC size has been considered to be highly resourceful, thereby improving the FRQ as a result of the diverse skills, expertise, and experiences they share amongst themselves (Dhaliwal et al., 2010; Hillman et al., 2000). This could be the potential reason why some prior literature argued that a larger AC size is more effective in monitoring management. This is confirmed by the findings of Felo et al. (2003) and Leong et al. (2015) who documented that AC size is negatively associated with EM and positively related to the financial reporting of US firms. In this dimension, the expectation has been that the larger the size of the AC, the more resourceful it will be in mitigating earnings manipulations and improving the FRQ of a firm. This is supported by some recent studies that documented a negative significant association between AC size and DA (Azzoz & Khamees, 2016; Mishra & Malhotra, 2016). This validates the findings of Liu and Sun (2010) who studied the role of directors' tenure on the effectiveness of

an independent AC. Their result shows that AC size has a negative significant relationship with EM. This suggests that a larger AC is effective in mitigating EM.

More so, a recent study by Setiany et al. (2017) examined the AC attributes and voluntary financial disclosure in Indonesia. The study revealed that the AC size had a positive significant influence on the voluntary financial disclosure of the firms. Mohammed, Ahmed and Ji (2017) revealed a positive significant association between AC size and accounting conservatism. In addition, Ismail and Kamarudin (2017) contended that AC size revealed an inverse association between income smoothing behaviour of firms. This supports the deceptive proponent of the creative accounting practiced by firms.

In Nigeria, recent studies conducted by Abubakar (2016), Chi-Chi and Friady (2016), Abata and Migiro (2016) found a negative significant association between AC size and EM. This also validates the result of Miko (2016) who revealed that AC size is negatively and significantly associated to discretionary accruals. This implies that, a larger number of AC members is more effective in minimising EM. Despite the fact that the proponents of the agency theory argued that smaller boards are more effective monitoring mechanisms and more decisive (Jensen, 1993; Leong et al., 2015; Lin et al., 2006; Lipton & Lorsch, 1992; Vafeas, 2005). Recent empirical evidences have shown that larger AC are more likely to reduce EM and in return improves FRQ (Azzoz & Khamees, 2016; Mishra & Malhotra, 2016). Furthermore, the negative relationships found between the AC size and EM in Nigeria indicates that the larger AC size improved the FRQ. Thus, consistent with resource

dependence theory it was expected that larger AC size would be negatively related to EM, but positively related to FRQ. This is because bigger AC may have diverse experience and have more ideas than smaller AC. This gives the bigger AC high likelihood of reducing the EM. In line with the foregoing, the study hypothesised that:

H₁: AC size has a positive association with the FRQ of the listed companies in Nigeria.

3.3.2 Audit Committee Independence and Financial Reporting Quality

Signaling theory posits that increasing the presence of the independent non-executive directors on the board may signal to owners that the company has strong corporate governance which will eventually promote investors' protection (Chen, Chen & Wei, 2009). Previous studies on AC have documented that an independent AC plays a significant role in checkmating managers' opportunistic behaviours and enhancing FRQ (Agrawal & Chadha, 2005; Amar, 2014; Bédard et al., 2004; Khalil & Ozkan, 2016; Klein, 2002; Sharma & Kuang, 2014; Shirazi & Salehi, 2016; Yang & Krishnan, 2005). Uzun et al. (2004) support the advocacy of the illusive perspective where income smoothing is considered as an intolerable act in reporting earnings. They found that accumulating the proportion of independent directors in the AC reduces the likelihood of financial fraud through the use of income smoothing. This is confirmed by Ismail and Kamarudin (2017) who documented a negative significant relationship between AC independence and the income smoothing of the listed companies in Malaysia.

Fuad (2016) examined the effect of the AC characteristics on the real EM of the listed firms in Indonesia. The study revealed that AC independence had a positive significant association with real EM. More recently, Jerubet et al. (2017) examined the AC attributes and FRQ of the listed firms in Kenya. Their results showed a negative significant association between AC independence and FRQ. This is supported by Azzoz and Khamees (2016) and Saleem and Alzhobi (2016) who found a negative significant impact between AC independence and DA. On the contrary, Inya et al. (2018) examined the role of corporate governance in minimising the management misbehaviour in Thailand. Their study showed a positive but nonsignificant relationship between AC independence and the possibility that management would misbehave. This validated some studies revealing that AC independence has a positive influence on DA and restatements (Al-Rassas & Kamardin, 2015; Gao & Huang, 2016). This indicates that a higher ratio of AC independence on the board is correlated with a higher level of abnormal accruals and the likelihood that firms restate their earnings. This was affirmed by the recent study by Poretti et al. (2018) which contended that the greater the percentage of independent directors in the companies' ACs, the higher the market reactions to the earnings pronouncements. They advocated that more autonomous audit committees serve as substitutes for weak institutions to enhance the reliability of their earnings pronouncements. Moreover, Amin et al. (2018) revealed that AC independence has a negative significant relationship with DA.

Studies in Nigeria, such as Kantudu and Samaila (2015), argued that the AC independence improved the FRQ of the oil firms. In addition, Ormin, et al. (2015)

confirmed that independent AC members reduces the magnitude of the working capital accruals. Whilst Kibiya et al. (2016a) affirmed that AC independence reduces managers' earnings manipulations and improves financial reporting quality. More recently, Akhor and Oseghale (2017) argued that AC independence has a positive significant influence on the FRQ. This was observed by Akeju and Babatunde (2017) who confirmed that the AC independence had a negative significant association with DA. This showed that an increase in the number of independent directors in the AC improves FRQ. Consistent with the signaling theory, this study expects that the existence of the independent non-executive directors in the AC may signal to owners that the company has strong corporate governance which will protect their interest and in returns improves FRQ (Chen, Chen & Wei, 2009). Therefore, the study hypothesised that:

H₂: Audit committee independence has a positive association with the FRQ of the listed companies in Nigeria.

3.3.3 Audit Committee Meetings and Financial Reporting Quality

Consistent with the agency theory, Beasley et al. (2009) argued that members of the AC are committed to meaningful and substantive meetings which will, in turn, lead to better monitoring and improve the financial reporting process. Previous literature contended that the frequency of the AC meetings reduces the degree of financial restatements. Since frequent meetings with the internal auditors will keep them informed and acquainted with the accounting and auditing issues (Abbott et al., 2004; Raghunandan et al., 2001). In the same vein, Hamdan et al. (2013) and

Habbash and Alagla (2015) argued that more frequent meetings reduces DA and enhances FRQ. In contrast, other studies report insignificant relations between AC meetings and DA (Bamahros & Wan Hussin, 2015; Habbash & Alagla, 2015; Kamolsakulchai, 2015). On the other hand, Katmon and Farooque (2015) observed that AC meetings have a positive significant relationship with EM, which implies that more frequent meetings are associated with higher EM.

More so, Ika and Ghazali (2012) studied the effectiveness of the AC and the timeliness of financial reporting in Indonesia. They found that the AC effectiveness, including the frequency of meetings, minimised the audit reporting lead time. More recently, Shankaraiah and Amiri (2017) examined the AC quality and FRQ in India. The study revealed that the AC meetings had a negative significant impact on the FRQ proxied by DA. This is affirmed by Kolsi and Grassa (2017) who examined whether the governance mechanisms influenced the EM of Islamic banks. Their findings showed that the AC meetings had a negative significant influence on the discretionary loan loss provisions.

In Nigeria, a study by Dabor and Dabor (2015) documented a negative significant influence between the AC meetings and discretionary loan loss provisions, whilst Ibrahim et al. (2016) affirmed that the AC meetings increased the degree of the real EM of the listed non-financial companies in Nigeria. Mbobo and Umoren (2016) studied the effect of the AC attributes and the FRQ of the listed companies in Nigeria. They found that the AC meetings had a positive significant association with the FRQ. This has been confirmed by Umobong and Ibanichuka (2017) who found that an AC meetings have a positive significant relationship with FRQ. More so,

Dakata et al. (2017) studied the impact of the AC meetings on the EM of the listed companies in Nigeria. They revealed that the AC meetings had an inverse relationship with the EM in Nigeria. This proved the arguments that a more diligent and active AC enhances FRQ (Beasley et al., 2009). Consistent with the agency theory, it is expected that AC substantive meetings may lead to better monitoring and improve the financial reporting process. Based on the foregoing arguments, the study hypothesised that:

H₃: Audit committee meetings have a positive association with the FRQ of the listed companies in Nigeria.

3.3.4 Audit Committee Financial Accounting Expert and Financial Reporting Quality

Consistent with the resource dependence theory, the function of the AC is to make resources, including expertise and experiences, that will enable the firm to gain competitive advantages, particularly in regards to FRQ. The AC expertise is an essential part of the governance devices that serves as a vehicle to aid a company to achieve its strategic objectives (Cohen et al., 2007; Pfeffer, 1972). By providing proper monitoring, this is expected to minimise agency problems as a result of management's opportunistic behaviours.

An AC financial accounting expert is one of the important segments of expertise in the AC. Prior literature on AC financial accounting experts have established that a larger proportion of members with financial accounting expertise in the AC provides better monitoring of the managers' discretionary activities and enhances the FRQ of

the firms. For instance, Agrawal and Chadha (2005) contended that accounting experts on the AC reduce the tendency of earnings restatements. Whilst Badolato et al. (2014); Baxter and Cotter (2009) and Ittonen et al. (2016) suggested that AC accounting experts minimise the levels of EM of firms and, consequently, improve financial reporting quality. Defond et al. (2005); Dhaliwal et al. (2010); Farber et al. (2016); Felo et al. (2003); and Mcdaniel et al. (2002) argued that accounting expertise on the AC enhances the quality of financial reports.

Furthermore, Saleem and Alzoub (2016) affirmed that AC accounting experts constrain the extent of the DA of firms. Similarly, Krishnain and Visvanathan (2008) and Sultana et al. (2013) contended that a larger proportion of financial accounting experts on the AC enhances the effective monitoring function and improves accounting conservatism when the board is characterised by strong governance. Fuad (2016) argued that AC financial accounting experts have positive significant associations with real EM. This validates the findings of Huang and Thiruvadi (2010) who examined the association between AC characteristics and financial fraud. The study showed that AC financial accounting experts were negatively associated with financial fraud. This indicates that the members of the AC with financial accounting knowledge were more likely to prevent financial fraud in the US firms. The proponents of resource dependence theory argued that AC accounting experts are the most active financial experts in improving the audit committee's monitoring role (Cohen et al., 2007; Dhaliwal et al., 2010; Krishnan & Visvanathan, 2008). This is because accounting expertise may be more relevant for members of AC than any other expertise, since „best practices“ recommend that members of AC are

accountable for tasks that demand a high degree of accounting sophistication (DeFond et al., 2005). Thus, it is observed that increasing the percentage of accounting experts on the AC increases the likelihood that the AC will detect accounting manipulations performed by managers. And, subsequently, increases the possibility that the AC will improve the FRQ of firms. Consistent with the resource dependence theory, the study hypothesised that:

H₄: Audit committee financial accounting expertise has a positive association with the FRQ of the listed companies in Nigeria.

3.3.5 Audit Committee Legal Expertise and Financial Reporting Quality

Under the perception of the resource dependence theory, Cohen et al. (2008) contended that a focal point on the resource dependence manifested through the organisation and industry skills of the non-accounting expertise on the AC can improve the audit committees' ability to examine whether accounting procedures correctly reflect the basic financial substance of the business activities, which will advance to a higher FRQ. Previous studies on AC legal experts argued that legal expertise acts as a monitor rather than a mere signal to financial reporting. For instance, Baxter and Cotter (2009) confirmed that legal experts on the AC significantly reduce the DA. This has been confirmed by Krishnan et al. (2011) who indicated that legal expertise acts as a monitor rather than a mere signal to financial reporting. Since, they are more informed on the legal liability threats and their legal backgrounds require them to be more vigilant to such threats. It can be contended that increasing the presence of directors with legal backgrounds in the AC can reduce the DA and enhances the FRQ of companies. Because their legal experiences make

them more acquainted with litigation and legal liability threats relating to financial reporting.

More recently, Shankaraiah and Amiri (2017) examined the AC and FRQ in India. The result from their study showed that the AC legal experts had a negative significant impact on the DA. In line with the resource dependence theory, it is expected that AC members with valuable expertise other than accounting expertise can contribute in improving FRQ (Cohen et al., 2008; Dhaliwal et al., 2010). Thus, the study hypothesised that:

H₃: Audit committee legal expertise has a positive association with the FRQ of the listed companies in Nigeria.

3.3.6 Female Audit Committee Member and Financial Reporting Quality

It has been argued that females are more risk antagonistic, careful, and decent than men (Gold et al., 2009). The social feminist theory also suggests that the inherent difference between women and men does not mean that women are inferior to men since men and women may develop differently but with equality effective qualities (Fischer et al., 1993). Thus, a larger proportion of women directors enhances the audit committees' effectiveness and monitoring activities (Ittonen et al., 2016). Prior studies on AC gender contended that the presence of female directors in the AC reduces EM and increases the likelihood that auditors report uncertainty and the scope limitation of the qualification in the financial statements (Dobija et al., 2016; Firoozi et al., 2016; Ittonen et al., 2016; Abdullah & Ku-Ismail, 2016; Martinez et al., 2016; Thiruvadi & Huang, 2011).

Huang and Thiruvadi (2010) examined the association between AC characteristics and financial fraud. They showed that a higher proportion of women in the AC committee improves AC diligence which promotes the financial reporting process. More so, Thiruvadi and Huang (2011) contended that a female AC member mitigates the EM by increasing the negative income, decreasing the DA. This supports the argument of Dobija et al. (2016) who affirmed that giving women a voice increases their role in influencing FRQ. This is further confirmed by Abdullah and Ku-Ismail (2016) who suggested that increasing the proportion of female directors in the AC decreases the likelihood of DA.

More recently, Sánchez et al. (2017) utilised 159 listed banks from nine European countries and examined the effect of gender diversity and financial expertise on EQ. The result shows that the female AC member with financial accounting expertise was negatively correlated with the discretionary non-loss provisions, and this implies a higher accounting quality. This is confirmed by Lara et al. (2017) who studied the roles of women directors on the accounting quality of the listed companies in the UK. Their results showed that a larger proportion of women on the board enhanced earnings quality. They further argued that gender bias was negatively correlated to earnings quality. Similarly, Lenard, Yu, York and Wu (2017) examined the influence of female leadership on the occurrence of fraud litigation in the UK. The study showed that the presence of women on the board reduced the occurrence of financial fraud litigation. This is consistent with the findings of Hoang et al. (2017) who examined the influence of board diversity on EQ. The study revealed a positive significant relationship between board diversity and EQ. Further studies by Ammer

and Ahmad-Zaluki (2017) examined the importance of gender multiplicity in exhibiting the quality of EM forecast in Malaysia. The study showed that female AC members enhanced the shareholders' protection and improved the monitoring role of the AC on the managers. This is affirmed by Oluoch et al. (2017) who examined the influence of the AC diversity on the FRQ in Kenya. Their findings showed that female participation in the AC improved the FRQ. Moreso, Zalata et al. (2018) contended that a higher percentage of female experts on the audit committee reduced the likelihood of earnings manipulation.

In Nigeria, Dakata et al. (2016) contended that female AC members had the same functions as female directors in minimising the EM performed by the managers. This is empirically confirmed by Eze (2017) who argued that a high ratio of females on the board mitigates DA. Similarly, Ahmed and Che-Ahmad (2016) documented that a larger percentage of female directors on the board increased the audit reporting lag and improved the FRQ of the Nigerian banks. More so, Kibiya et al. (2016c) found a positive but insignificant relationship between women directors and FRQ. It has been observed that the insignificant relationships documented by some of the above studies may be due to low proportions of women's representation on the board. This may further be attributed to insufficient sample sizes being adopted. For instance, Eze (2017) used a sample of six food product firms only. However, considering the above argument, if a large sample size is used, it may improve the variability of the women's representation on the board. Consistent with the social feminist theory, it was expected that female AC members would have similar functions like their men

counterparts in minimising EM and improving financial reporting quality. Based on the above arguments, the study hypothesised that:

H₆: Female audit committee members have a positive association with the FRQ of the listed companies in Nigeria.

3.3.7 Audit Committee Stock Ownership and Financial Reporting Quality

In line with the agency theory, equity ownership by directors reduces the tendency of agency problems arising from the separation of ownership and control (Mangena & Pike, 2005). Because, increasing AC equity ownership decreases the likelihood of preventing negative earnings surprises. Which indicates that, AC shares aligns the interests of the members of the AC with the interests of other shareholders (Vafeas, 2005; Yermack, 2004). Therefore, AC stock ownership has been found to play a significant influence in the oversight monitoring function of the AC (Kibiya et al., 2016b).

Prior studies on AC stock ownership has shown that a larger proportion of equity possessed by the AC reduces DA (Hamdan et al., 2013; Vafeas, 2005). Yang and Krishnan (2005) contended that the AC stock ownership significantly reduced the DA established by the management of the US companies. This is empirically confirmed by Rose, Mazza, Norman and Rose (2013) who argued that stock-holding directors have a high tendency of opposing managers' attempts to manipulate earnings. In addition, Lin et al. (2006) acknowledged that the AC stock ownership reduces the likelihood that a firm would restate its earnings in the US. In addition, Campbell et al. (2015) studied the influence of stocks held by the AC during post

SOX in the US. They found that the AC stock holdings had a positive significant relationship with the probability of meeting or beating the analyst earnings predictions. However, prior studies argued that possession of equity by the AC can erode their monitoring ability because this may compromise their independence in the decision-making process (Mangena & Pike, 2005). Since they will be more likely to increase their value as a result of share price increase (Sharma & Kuang, 2014). Both the foregoing studies were conducted using data from developed countries (the US and New Zealand). Therefore, their findings might not be extended to the Nigerian context.

Recently, in Nigeria, Kibiya et al. (2016c) examined the effect of AC independence, stock ownership, financial expertise, and FRQ. The study revealed a positive significant relationship between AC stock ownership and FRQ. This suggests that increasing the percentage of shares held by the AC enhances their monitoring function and improves FRQ. From the foregoing, it has been deduced that most of the findings of the studies revealed that increasing the percentage of the equity held by the AC members constrains the opportunistic behaviours of the management. Therefore, consistent with the agency theory it is expected that AC stock ownership can play a significant influence in the oversight monitoring function of the AC by reducing agency cost. Thus, this reduces the EM and increases the likelihood of having quality financial reports. Therefore, the study hypothesised that:

H₇: AC stock ownership has a positive association with the FRQ of the listed companies in Nigeria.

3.3.8 Audit Committee Tenure and Financial Reporting Quality

Advocates of the agency theory suggest that long tenure of AC increases the likelihood of negative earnings surprise avoidance (Vafeas, 2005). Within the context of the same agency perspective, Beasley (1996) argued that, the longer that the directors serve on the board, the more likely they will reduce financial statement fraud. This is because the longer they stay on the board, the more knowledgeable and experienced they will be about the company's practices; and thus, they will become more effective in minimising financial reporting fraud (Beasley, 1996; Hermalin & Weisbach, 1991). This notion has been supported by previous studies on AC tenure which documented that the longer the directors stay on the AC, the better they act in mitigating the manager's discretion to manipulate earnings and hence, improve FRQ (Dhaliwal et al., 2010; Firoozi et al., 2016; Yang & Krishnan, 2005). Bedard et al. (2004) explored the influence of AC characteristics on EM. They showed that EM is less likely to occur in the firm with long-tenured autonomous directors on the AC. Similarly, Dhaliwal et al. (2010) revealed that long serving directors on the AC are positively related to FRQ, signifying that long serving directors are more active in monitoring financial reporting. However, some prior literature argued that prolonged board tenure of autonomous directors may possibly create a social relationship with the managers which might be established over time (Vafaes, 2003). Nevertheless, this finding has been criticised for adopting small sample and using single period (1996 only), which renders the evidence obtained from the study insufficient and warrants further research (Liu & Sun ,2010).

In response to the above, Liu and Sun (2010) examined a large sample of 7,700 firm year observations in the US for the period of 1998 to 2005. They showed that AC tenure had a negative significant relationship with EM. This is in line with the argument that long-tenured directors have more skills and experience to effectually monitor the FR process. This validates the findings of Thoopsamut and Jaikengkit (2009) who studied the influence of the AC, audit firm size, and quarterly EM of the Thai listed companies. A recent study of Setiany et al. (2017) revealed a positive significant relationship between AC tenure and financial disclosure. This suggests that the longer tenure of directors in the AC improves FRQ.

It has been observed that AC members who have been in the AC for longer periods are more acquainted with and exposed to the entity's financial reporting process and this, in turn, will have a direct effect on FRQ. In line with the above findings, the study hypothesized that:

H₈: AC tenure has a positive association with the FRQ of the listed companies in Nigeria.

3.3.9 Audit Committee Chair and Financial Reporting Quality

In line with the agency theory, it has been contended that AC chairs are heavily active monitors (Beasley et al., 2009). Thus, the AC chairs are recognised as the chief executive officers (CEOs) of the AC (Ernst & Young, 2011, p. 8). Consequently, they are very crucial in establishing a liaison between the committee and the board of directors or the internal and external auditors (Schmidt & Wilkins, 2013). Thus, the AC chair has greater responsibility than other AC members for

financial reporting issues and thus, plays a vital role in supervising the financial reporting and, basically, influencing the efficacy of the AC (Bromilow & Keller, 2011).

Prior literature argues that AC chairs play a momentous role in enhancing AC effectiveness. They are considered as custodians in steering a group of people (Ernest & Young, 2011). This insinuation is practically affirmed by the study by Tanyi and Smith (2015) who showed a negative significant relationship between the number of AC chair positions and financial reporting fraud. They argued that companies with busy AC chairs have considerably higher levels of discretionary accruals, and are more probable to meet or beat earnings targets. They also contended that AC chairs' busyness reduces the oversight and monitoring roles of the AC on the financial reporting process. Similarly, Bruynseels and Cardinaels (2014) revealed that companies whose AC chairs have social ties to the CEO acquire less audit services and are involved more in earnings manipulations. They suggested that such companies' auditors are less probable to provide going-concern opinions or to expose internal control feebleness due to the existence of social ties. In addition, Hogan, Schmidt and Thompson (2015) documented that AC chairs are less likely to be termed as defendants than other AC members.

More so, a recent study by Ghafran and Yasmin (2018) revealed that AC chairs' monitoring, tenure, and experiential know-how have an inverse significant relationship with the audit reporting delay. They advocate that more effective AC chairs are more active in fast-tracking financial reporting timeliness. Moreover, a recent study by Qu (2018) showed that AC chairs vary from ordinary members in a

number of ways: First, AC chairs are mostly the financial experts of the AC. Second, AC chairs are mostly in charge of more official duties, including creating the schedule for the committees' meetings, setting the agenda, collaborating with the internal and external auditors, and assessing the performances of the ordinary members. He also documented that AC chairs are regularly more probable to have special ties with managers before joining the committee. This makes them less effective in performing their oversight duties.

In Nigeria, there is limited empirical evidence on the influence of AC chairs on financial reporting quality. Despite the fact that Section 359 (4) of the CAMA (2004) stipulates that the AC shall comprise a mixture of an equal representation of directors and shareholders. This uniqueness of the AC formation in Nigeria makes the chairmanship of the committee be handled by either a director or a shareholder. However, studies on the AC in Nigeria have failed to explore the uniqueness of the AC formation in Nigeria which is composed of an equal representation of shareholders and directors. Consequently, this study has examined how the influence of the AC chair (either a director or a shareholder) affects the FRQ of the listed companies in Nigeria. Consequently, it was expected that the AC chair would be more likely to influence financial reporting processes than other AC members. Consistent with the agency theory it is expected AC chair can influence the motives for monitoring the financial reporting process (Sharma et al., 2009). In line with the above arguments, the study hypothesised that:

H₉: AC chairs have a positive significant relationship with the FRQ of the listed companies in Nigeria.

3.3.10 Audit Committee Size and Audit Quality

Consistent with the resource dependence theory, it has been argued that more directors on the boards are positively associated with audit fees to guarantee better assurance (Jizi & Nehme, 2018). Previous literature argued that a larger AC has a higher probability of promoting its status and power in an entity, thus it will demand a higher audit quality (Kalbers & Fogarty, 1993). This has been supported by Krishnan and Visvanathan (2009) who found that AC size is positively and significantly associated with audit fee. Similarly, Hoitash and Hoitash (2009) showed that the AC size has a positive significant relationship with audit quality proxied by audit fees and going-concern. This indicates that a larger AC is more likely to demand extensive audit coverage from the external auditors by paying higher audit fees. More so, Zaman et al. (2011) showed that a larger AC enhances audit quality in exchange for payment of higher audit fees. This has been observed by the recent study by Kim et al. (2016) who argued that a larger number of AC members is associated with a higher increase in audit fees, which acclaims that an increase of one member to an AC brings about an extra increase in audit fees in their effort to enhance external monitoring. More so, Marini et al. (2016) contended that larger sizes of the AC demand a greater audit assurance, and hence, support the demand side of the audit for more audit efforts which leads to higher audit fees.

On the other hand, Akhalumeh, Agweda and Ogunkuade (2017) examined the influence of corporate governance and audit quality in Nigeria. They found that the board size was positively and significantly associated with the audit quality proxied by the Big 4 auditors. This showed that a larger board demanded greater audit

assurance by engaging the service of Big 4 auditors. Ejeagbasi, Nweze, Ezech and Nze (2015) examined the influence of corporate governance and audit quality in the Nigerian banks. They found that board size was positively and significantly associated to the audit quality proxied by Big 4 auditors. They argued that a larger board demanded greater audit assurance by engaging the service of Big 4 auditors. More so, Urhoghide and Izedonmi (2015) explored the determinants of the audit fees of the listed companies in Nigeria. They showed that a larger board size was associated with higher audit fees.

Nevertheless, it has been argued that strong internal governance mechanisms and external audits can be substituted for each other, which suggests that greater internal control including the AC may be related to lower audit fees (Hay et al., 2006). However, many empirical evidences do not support this notion (Abbott et al., 2003; Carcello et al., 2002; Cohen et al., 2002; Hay et al., 2008; Kim et al., 2016). For instance it has been argued that lower audit fees force the audit team to reduce audit tests, which has adverse effect on audit quality (Cohen et al., 2007). Thus, consistent with the resource dependence theory, it is expected that larger AC size will be more willing to demand for greater audit assurance since they have been considered to be highly resourceful and effective monitors in reducing opportunistic management behaviour (Dhaliwal et al., 2010). Therefore, larger AC sizes require a higher level of audit assurance and this enable them support the auditor's demand for more audit effort which leads to higher audit quality. In line with the above arguments, the study hypothesised that:

H_{10a}: AC size has a positive relationship with the audit quality of the listed companies in Nigeria.

3.3.11 Audit Committee Independence and Audit Quality

It has been argued that an AC that is independent of the management does not have a private or financial dependence on the managers. Hence, within the context of the agency theory, Abbott et al. (2003) and Carcello and Neal (2003) contended that an independent AC may be more ready to disagree with managers on different issues. Throughout the assessment of the audit programme and outcomes thereof, an independent AC may demand an extended audit scope in order to dodge being linked to a financial misstatement and reserve its reputational capital. Prior studies argued that companies with an effective AC with the majority of whom are independent directors pay high audit fees in order to protect the company's reputation and promote the interests of the investors (Abbott et al., 2003; Carcello et al., 2002). It has been contended that independent directors on the AC perform more of a monitoring role since they are independent of the management. This makes them require a high quality audit and be more willing to decrease the propensity for financial fraud and EM (Beasley, 1996; Hudaib & Cooke, 2005). This is affirmed by Lee and Mande (2005) who revealed that the AC independence was positively and significantly related to the audit fees of the listed firms in the US. In addition, Boo and Sharma (2008) showed that the AC independence was positively and significantly related to the audit fees in the US. This is in line with the demand hypothesis which proposes that an independent AC demands greater assurance from

the external auditors to guarantee the effective oversight of the financial reports and to safeguard their capital reputation.

More so, Zaman et al. (2011) contended that independent non-executive directors in the AC are willing to pay higher audit fees in demand for greater audit effects. The explanation for this is, an AC that is composed of independent non-executive directors intends to pay higher audit fees to improve audit quality. This is confirmed by Marini et al. (2016) who argued that when there is a larger proportion of independent directors in the AC, it demands a greater audit assurance, consequently, supporting the demand side of the audit for more audit efforts which leads to higher audit fees. At the same time, Naser and Hassan (2016) explored the determinants of the audit fees amongst the listed companies in Dubai. They argued that increasing the presence of independent directors in the AC increased the audit fees to ensure better audit quality. Rainsbury, Bradbury and Cahan (2009) explored the relationships between the AC, FRQ, and audit fees in an unregulated environment. They employed a sample of 87 firms listed in New Zealand for the year 2001. They showed that the AC proxied by AC independence had a slight influence on the audit fees.

In addition, Jiraporn, Chintrakarn, Tong and Treepongkaruna (2018) explored whether board independence can be a substitute for external audit quality. They utilised a sample of 14,000 firm-year observations through 18 years. They revealed that companies with more independence of the board had less likelihood of engaging a Big 4 auditor. Suggesting that a robust board with a greater proportion of independent directors gained more active governance and thus, did not require as much from the external auditors. However, proponent of the demand-based

perspective contends that companies that have strong governance require external auditors to increase audit efforts, leading to higher audit fees and engagement of Big 4 auditors (Kim, Kwak, Lim & Yu, 2017; Krishnan & Visvanathan, 2009). The demand-based perspective also confirms the complementary roles of ACs with respect to audit quality. Therefore, it is expected that an independent AC would demand a higher quality audit for better financial reporting processes.

Recent studies in Nigeria support the foregoing argument, for instance, Ejeagbasi et al. (2015) examined the influence of corporate governance and audit quality in Nigeria. They found that the AC composition was positively and significantly associated with the audit quality proxied by Big 4 auditors. This is consistent with the findings of Akhalumeh et al. (2017) who examined the influence of the corporate governance and audit quality in Nigeria. They found that board independence was positively and significantly associated with the audit quality proxied by Big 4 auditors. Similarly, Urhohide and Izedonmi (2015) revealed that a larger amount of AC independence was linked with higher audit fees in Nigeria. This indicates that a larger number of independent directors demand greater audit assurance by engaging the service of Big 4 auditors and making payment of high audit fees. In line with the above arguments, the study hypothesised that:

H_{10b}: AC independence has a positive relationship with the audit quality of the listed companies in Nigeria.

3.3.12 Audit Committee Meetings and Audit Quality

Consistent with the agency theory, Abbott et al. (2003) contended that the AC that meets at least two times in a year is more likely to engage an industry specialist auditor. Prior studies show that AC meeting frequency is positively related to audit fees (Lee & Mande, 2005). This was observed by Krishnan and Visvanathan (2009) who argued that AC meetings are positively and significantly associated with audit fees. Furthermore, Zaman et al. (2011) argued that higher AC diligence makes them more encouraged to require more audit quality by paying higher audit fees. This is affirmed by Marini et al. (2016) who contended that a more diligent AC demands a greater audit assurance and, as a result, supports the demand side of the audit for more audit efforts which leads to higher audit fees. This validates the findings of Zhang, Zhou and Zhou (2007) who examined AC quality auditor independence and internal weakness. They found that an effective AC that meets frequently increases audit quality by hiring Big 4 auditors.

In addition, Huse and Solberg (2006) found that AC meetings have a positive significant influence on the audit fee. This supports the demand hypothesis of greater audit assurance for higher audit quality. This suggests that an AC that meets frequently can aggressively and absolutely influence audit coverage throughout the numerous steps of the audit. This is because, more frequent meetings demonstrate board's more diligence in discharging its roles, which enhance the level of oversight of the FRQ. Thus, it is expected that more frequent AC meeting support the purchase of „differentially higher-quality audit services“ (Carcello et al., 2002). Moreover, Urhoghide and Izedonmi (2015) revealed that the board meeting frequency was

linked to higher audit fees in Nigeria. In line with the above arguments, the study hypothesised that:

H_{10c}: AC meetings have a positive relationship with the audit quality of the listed companies in Nigeria.

3.3.13 Audit Committee Expertise and Audit Quality

Consistent with the institutional theory, Cohen et al. (2014) showed that the AC that has members with specific industry expertise is associated with higher financial reporting quality. Consequently, if management and AC members work on a similar board within the same industry in which the firm resides, this relationship may improve the committee's expertise and, subsequently, enhance its overall capability to act as effective monitors. This has been affirmed by Lee and Mande (2005) who contended that a larger proportion of AC financial experts increased the audit fees of the listed firms in the US in their demand for better assurance. In addition, Cohen et al. (2014) argued that AC accounting experts required more audit assurance by paying higher audit fees. They found, empirically, that AC financial accounting and supervisory experts directly and significantly increases audit fees. This is affirmed by Kim et al. (2016) who contended that financial experts in the AC show a larger increase in audit fees, which recommends that an increase in the number of financial experts on the AC brings about an additional increase in audit fees in their effort to enhance the external monitoring.

Abbot et al. (2003) contended that the AC may also demand extra audit procedures outside the original audit plan for those areas later showing greater amounts of

disagreement, uncertainty, or risk. Thus, the AC consisting of a larger proportion of financial experts provides higher levels of audit assurance and possibly delivers stronger support for auditors during audit scope discussions with management (Abbott et al., 2003; Carcello & Neal, 2003). Since, AC members who have financial expertise offer additional support for external auditors when deliberating or negotiating auditing issues and audit coverage with management. Those experts allow AC members to better comprehend the auditing issues and risks, as well as the audit procedures planned to address these issues and risks (Abbot et al., 2003). Bruynseels and Cardinaels (2014) contended that the financial experts required more audit effort for better audit assurance in the listed firms in the US. This affirms the findings of Jizi and Nehme (2018) who examined the role of board supervision on the audit fees of the US commercial banks. They found that the AC financial expert was positively associated with audit fees. In Nigeria, Urhoghide and Izedonmi (2015) revealed that a larger proportion of board expertise was associated with higher audit fees in their demand for greater assurance. In line with the above arguments and in reference to the complementary hypothesis, the study hypothesised that:

H_{10d}: AC financial accounting experts have a positive relationship with the audit quality of the listed companies in Nigeria.

However, there are limited studies that examine the influence of legal experts on audit quality, but prior studies argued that the presence of legal expertise in the AC can assist in improving better financial reporting process. Since FRQ can be linked to legal liability threats, the experiences of legal experts may require them to be more watchful to such threats (Krishnan et al., 2011). Thus, this enables them to be more

willing to purchase high audit quality in order to avoid potential litigation and promotes financial reporting process. Therefore consistent with resource dependence theory, it is expected that diversity of expertise in AC including the legal expertise can enhance the audit committees' capacity to determine whether accounting ethics and procedure correctly reflect the basic financial elements of the business undertakings, which in return improve FRQ (Cohen et al., 2008; Cohen et al.,2014). Therefore, the study hypothesised that:

H_{10c}: AC legal experts have a positive relationship with the audit quality of the listed companies in Nigeria.

3.3.14 Female Audit Committee Member and Audit Quality

The liberal feminist theory also proposes that if women were given equal opportunities, men and women would utilise their potentials rationally and more equally. Thus, their psychological dissimilarities would reduce and later disappear (Fischer et al.,1993). Ittonen et al. (2010) contended that a female AC chair is associated with lower audit fees. They also stressed that, from the preview of the demand perspective, female AC chairs decrease the desire for the assurance delivered by the external auditors. On the other hand, from the supply-side perception, AC members and female chairs may reduce audit fees by influencing the audit assessment risk or by enhancing the effectiveness of the internal control system or by generally improving the credibility of the financial reports (Ittonen et al., 2010). However, recent studies argued that female AC members demand greater audit efforts than their male counterparts. This has been affirmed by Aldamen et al.

(2016) who posited that a diverse gender in the AC will demand a higher audit quality in high risk circumstances which is attributed to higher audit fees. This makes the external auditors increase the level and scope of the audit efforts reflecting the demand side hypothesis. They found that female AC members demand greater audit efforts than their male counterparts. This suggests that female representation on the AC increases audit fees in demanding more audit efforts. A more recent study by Lai et al. (2017) showed that the female AC members demanded higher audit quality by paying higher audit fees than the male directors in the US firms.

In another development, Eagly and Carli (2003) contended that women have to show extra abilities in order to gain managerial positions and be on corporate boards. In light of the foregoing, it was expected that gender diversity might enhance the efficiency of the company's boards and committees. Since, the social feminist theory suggests that the inherent difference between women and men does not mean that women are inferior to men since men and women may develop differently, but with equally effective qualities (Fischer et al.,1993). This is consistent with the finding of Huang, Huang and Lee (2014) who argued that a female CEO requires greater assurance from the external auditor by paying higher audit fees. In line with the above arguments and with reference to the complementary hypothesis, the study hypothesised that:

H_{10f}: Female AC members have a positive relationship with the audit quality of listed companies in Nigeria.

3.3.15 Audit Committee Stock Ownership and Audit Quality

Under the preview of the agency theory, it is recommended that the demand for an independent external auditor is a consequence from a desire to lessen the management shirking that results from asymmetric information between shareholders and managers. The theory has been tested by some earlier studies (Abbott & Parker, 2000; DeFond, 1992; Menon & Williams, 1994) and they connected the agency theory to audit quality, board of directors' ownership structure, and AC. Prior research on AC stock ownership have argued that a larger proportion of equity possessed by the AC decreases the DA (Hamdan et al., 2013; Vafeas, 2005).

Ejeagbasi et al (2015) examined the influence of corporate governance and audit quality in Nigerian banks. They found that the ownership concentration was positively associated to the audit quality proxied by Big 4 auditors. In addition, Adam and Bala (2015) studied ownership structure and audit quality in Nigeria. Their study revealed a positive significant influence between directors ownership and the audit quality of the Nigerian banks. They suggested that a higher proportion of managerial ownership and institutional ownership enhanced their monitoring by providing greater audit assurance through engaging better auditors. Due to the fact that there is no study to the best of the researchers' knowledge that examined AC stock ownership and audit quality, the foregoing arguments have been applied, which established that a higher proportion of ownership structure (managerial ownership and institutional ownership) increases the demand for greater audit assurance in order to protect their resources. In line with the above arguments and in reference to the complementary hypothesis the study hypothesised that:

H_{10g}: AC stock ownership has a positive relationship with the Audit quality of the listed companies in Nigeria.

3.3.16 Audit Committee Tenure and Audit Quality

Agency theory proponents argue that the longer directors serve on the board, the more familiar and knowledgeable they will be about the company's practices and thus, they become more effective in curtailing the likelihood of financial reporting fraud (Beasley, 1996; Hermalin & Weisbach, 1991; Vafeas, 2005). Prior studies contended that the positive influence of long serving board directors on monitoring effectiveness outweighs the negative influence, particularly when it comes to monitoring the financial reporting process. In that, long serving directors who are autonomous to the management have greater governance quality as they may be more cautious with reputational capitals and, consequently, purchase more audit efforts (Chan, Liu & Sun, 2013 Vafeas, 2003). This suggests that the external audit might be a complement to AC governance and, as a result, there might be a positive relationship between the percentage of long serving directors on the AC and audit fees.

In addition, Chan, Liu and Sun (2013) argued that external auditors might put a price on AC effectiveness, for instance, AC governance may be a substitute for external auditing. In this situation, external auditors can spend less effort on clients with a higher proportion of long serving directors on the autonomous AC in situations where long serving directors have greater monitoring effectiveness. On the other hand, long serving directors might have a lower request for audit efforts. This will

lead to a negative relationship between the percentage of long serving directors on the AC and audit fees. However, it can be argued that AC long tenure reproduces higher monitoring effectiveness as long tenure directors are more active monitors, and they are more likely to request more audit efforts to ensure better monitoring effectiveness in order to reduce reputational losses (Dhaliwal et al., 2010). Recent empirical evidence has confirmed that long-tenured directors are linked to higher audit fees in their demand for better assurance. For instance, Lai et al. (2017) whose study showed that long AC tenure demand higher audit quality by paying higher audit fees. In line with the above arguments, the study hypothesised that:

H_{10h}: AC tenure has a positive significant relationship with the audit quality of the listed companies in Nigeria.

3.3.17 Audit Committee Chair and Audit Quality

Consistent with the agency theory, it has been argued that the AC chair is the first person accountable for accomplishing several responsibilities of the committee (Beasley et al., 2009). This is because; the AC chair is responsible for setting the committee's meeting agendas (Beasley et al., 2009). Prior studies on the AC chair have documented that the AC chair gains control over the AC, schedules the agendas and controls the information flow (Sharma, Naiker & Lee, 2009). This has been empirically observed by Bruynseels and Cardinaels (2014) who examined whether the AC is a management watchdog or personal colleague of the CEOs. They employed a sample of listed firms after the Sarbanes Oxley Act for five years 2004 to 2008. They showed that companies whose AC has social ties to the CEO acquire less

audit services and are involved more in earnings management. They also suggested that such companies' auditors are less probable to provide going-concern opinions or to expose internal control feebleness due to the existence of social ties. Baatwah, Ahmad and Salleh (2016) examined whether the AC chair matters on the link between AC expertise and FRQ. They showed that an AC chair with financial expertise increases the committee's effectiveness by positively influencing a timelier financial reporting disclosure of firms. Consequently, the AC chair is a vital component of the AC that enhances the audit process (Beattie, Fearnley & Hines, 2012). Thus, it was expected that the AC chairs would determine the precedence of the firms' audit teams and supervise the evaluation of the quality and scope of the firms' financial reports as well internal audit functions.

Recently, a study of Qu (2018) showed that the AC chairs vary from ordinary members in a number of ways: First, AC chairs are mostly the financial experts of the AC. Moreover, AC chairs are mostly in charge of more official duties, including scheduling for the committees' meetings, setting the agenda collaborating with the internal and external auditors, and assessing the performance of the ordinary members. Thus, in line with the agency theory, it has been contended that the AC chairs are the first to be questioned for achieving several responsibilities of the committee (Beasley et al., 2009). Then it is likely that they will be more willing to demand for greater audit effort from the external auditors by paying high audit. In line with the above arguments, the study hypothesised that:

H_{10i}: AC chairs have a positive relationship with the audit quality of the listed companies in Nigeria.

3.4 Audit Quality and Financial Reporting Quality

In line with the institutional theory, Cohen et al. (2008) contended that it is important to recognise the substance of the communication between diverse governance mechanisms and how these mechanisms use symbolic signals and actions to preserve their form to all pertinent mechanisms. Audit services improve the credibility of the financial reports and their reliability as a monitoring device. Thus, prior studies relate the agency demand for audit quality to variables such as client size and management share ownership (DeFond, 1992; Francis & Wilson, 1988). In line with the agency perspective, differences that exist between owners and managers result in information asymmetry between them. The agency theory posits that external auditors align the interests of management and owners in order to reduce the conflict of interest as well as any feasible managers' opportunistic behaviours that might arise (Jensen & Meckling, 1976). Because, shareholders employ auditors to provide information that is essentially useful in accomplishing a contract with the management (Watts & Zimmerman, 1983). It is expected that auditing financial reports is recognised as a means to decrease agency cost. This is because, it has been argued that the external auditors reduced the propensity of income smoothing in Australasian firms (Adi, 2000).

Previous literature on audit quality and FRQ shows that a high audit fee and the engagement of Big 4 auditors are associated to lower EM and a higher quality of financial reporting (Cohen et al., 2007). Franke et al. (2002) studied the effect of audit fees and EM in the US. The study revealed that audit fees and Big 5 auditors had negative significant relationships with EM. This is affirmed by Hoitash et al.

(2007) who revealed a negative significant correlation between audit fees and DA. Mitra et al. (2009) argued that both audit and non-audit fees reduce the likelihood of abnormal accruals and thus, increase earnings quality. Carmona et al. (2015) indicated that the audit fee has a negative and significant association to abnormal accruals.

More recently, Asthana et al. (2018) contended that fees competitions are cherished as a vital mechanism for enhancing the quality of the audit in the much concentrated US audit market. Moreover, Knechel et al. (2018) argued that societies with higher trust and public cooperation are more likely to put a price on a robust audit function and demand higher audit services. They also contended that the existence of Big 4 auditors is robust in nations with higher levels of public cooperation, and thus, countries with higher trust and public cooperation pay higher audit fees. This premise recommends that nations with higher extensive trust or higher public cooperation stress a higher price on the audit services and thus, be ready to pay higher audit fees. Al-Dhamari et al. (2018) revealed that audit fees are higher for companies that embark on related party transactions comprising the procurement and the sale of assets, merchandise, and services. It has also been contended that firms that are audited by Big 4 auditors exhibit less EM than those audited by Non-Big 4 auditors (Abernathy et al., 2014; Alves, 2014; Khalil & Ozkan, 2016; Abdullah & Ku-Ismael, 2016; Saleem & Alzoub, 2016). This suggests Big 4 auditor are more likely to enhance FRQ of firms. More so, Alzoubi (2016) argued that EM is significantly lower amongst companies that engage the service of Big 4 auditors than companies that are audited by Non-Big 4 auditors.

From the emerging markets, Saleem and Alzhobi (2016) found that the audit quality was negatively related to EM. Their findings revealed that the audit fee had a negative significant relationship with the DA. They further confirmed that the EM was lower in the firms that had acquired the service of the Big 4 auditors compared to the firms that had acquired the service non-Big 4 auditors. Recently, Wan Hussin et al. (2018) explored the influence of the lead appointment partner workload, tenure of partner-client, and audit reporting lag in Malaysia. They revealed that Big 4 auditors were associated with a shorter reporting lag.

In Nigeria, Aliyu et al. (2015) found that the auditors' financial dependence increased the rate of the EM of the banks. The findings revealed that the audit fees and the audit firm size proxied by the Big 4 auditors had a positive significant influence over the earnings quality. More so, Eriabie and Dabor (2017) showed that audit quality is negatively associated to EM. This has been affirmed by Ndubuisi and Ezechukwu (2017) who found that the audit fees and Big 4 audits had a positive significant relationship with the audit quality. In contrast, Okolie (2014) argued that the audit fee significantly decreased the DA of the listed firms in Nigeria. This has been confirmed by Abdulmalik and Che-Ahmad (2016) who contended that audit fees and Big 4 auditors reduced abnormal accruals. This establishes that a payment of a high audit fees to external auditors in Nigeria do not impair their independence. More recently, Abdul-Rahman et al. (2017) showed that the audit fees had a positive significant association with the audit quality of the listed cement firms in Nigeria.

It can be contended that a higher audit fee is associated with higher audit effort which, in turn, results in better monitoring and greater FRQ. On the other hand,

companies that are audited by Big 4 auditors have a lower tendency of EM. This is affirmed by Cohen et al. (2007) who showed that there is a negative significant association between Big 4 auditors and DA.

Overall, as proposed by the institutional theory, it was expected that merging the AC to work with the external auditor would enhance the monitoring of the financial reporting process. This is because, the AC is considered to be a formal structure that is employed by an organisation in a ceremonial way, but the actual monitoring of the organisation is determined by other external factors, for example, external auditors in this context. This presumption is popularly known as "decoupling" (Escobar & Demeritt, 2017; Baker, Bedard & Hauret, 2014; Fourcade & Savelsberg, 2006). In line with the above, the study hypothesised that:

H₁₁: Audit quality has a positive impact on the FRQ of the listed companies in Nigeria.

H₁₂: Audit quality mediates the relationship between the AC characteristics and the FRQ of the listed companies in Nigeria.

3.5 Summary of the Chapter

This chapter has provided the theories that elucidated the relationship between AC attributes and FRQ, AC attributes and audit quality, as well as audit quality and FRQ. The chapter explained how audit quality can mediate the relationship between AC attributes and FRQ. And, it finally presented a detailed explanation of the theoretical

framework that served as a basis for the development of the hypotheses of the study.

The next section provides the research methodology of the study.



CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Introduction

The chapter also explains the methodology of the research. These include the description of research design, population, sampling, and sources of the data collection. It also discusses the variable measurements and definitions, model specifications, and technique of the analysis; and finally, the chapter ends with the summary of the chapter.

4.2 Research Method and Design

The research design is considered as a blueprint or a master plan that explains the approaches and processes for gathering and investigating the requisite information (Zikmund, Babin, Carr & Griffin, 2010). Thus, the most frequently employed research designs in business studies include the descriptive and explanatory research designs (Sekaran & Bougie, 2010; Zikmund et al., 2010). Conversely, the appropriateness of the type to be employed is basically influenced by the nature and precision of the research problem. A descriptive research design is performed in specific circumstances where only a slight amount of knowledge in regards to the type of problem exists. Thus, it is adopted to offer a more precise description of the problem (Sekaran & Bougie, 2010; Zikmund et al., 2010). On the contrary, an exploratory research design is used to source information on a specific problem at hand. Consequently, it does not offer conclusive results; thus, it is used to facilitate comprehension of a new phenomenon, that necessitates a further study to be

performed to obtain verifiable and convincing evidence. The explanatory research design is also described as hypothesis testing which is performed to further establish a precise knowledge and explanation of the kind of relationships there are amongst the variables being examined (Sekaran & Bougie, 2010; Zikmund et al., 2010). Thus, this current study has employed the explanatory research design as it has examined and described the mediating effect of audit quality on the relationship between AC characteristics and financial reporting quality.

4.2.1 Population and Data Source

The population included 170 companies listed in the NSE as of 31 December 2016. The study covered the period of five years from 2012 to 2016. The choice of the period (2012 to 2016) was as a result of the reform of the SEC (2003) Code of Corporate Governance in Nigeria effective from 2011, which serves as a guide to AC variables. This is because the Code provides the requirements about the composition of the AC in Nigeria. The period also included the aftermath of the accounting scandals by Cadbury Nigeria PLC, in 2006; African Petroleum PLC, in 2009; Intercontinental Bank, Oceanic Bank, Afri Bank, Fin Bank, and Union Bank PLC, in 2009; and the most recent by Stanbic IBTC PLC, in 2015. The choice of a five-year period was to determine an optimum duration that managers manipulated earnings because a study comparing earnings of two successive periods cannot conclude that the managers manipulated accounts to smooth income (Ben Rejib Attia, 2012). The dependent variable, FRQ, was measured by using the income smoothing technique and the DA. The data for income smoothing and DA were extracted from the Thompson Reuters DataStream, whilst the AC characteristic variables were found in

the annual reports of the listed companies. Table 4.1 contains the breakdown of the population by industry.

Table 4.1
Detailed Distribution of Firms Listed by NSE as at 31 December 2016

Industries	Number
Agriculture	5
Conglomerate	6
Construction/ Real Estate	7
Consumer Goods	23
Financial Services	55
Health Care	11
ICT	9
Industrial Goods	15
Natural Resources	4
Oil and Gas	12
Services	23
Total	170

4.2.2 Sampling Technique

The study has considered all the listed companies for the period of the study except for financial services due to their distinct characteristics and regulations. After subtracting the 55 listed financial services from the total population of 170 listed companies, 115 companies remained. Thus, a filtering criterion was applied in the following manner in order to arrive at the final sample: A company must have published its accounts for the period of the study. It must have provided all the information that was required on the variables of the study. Finally, any company that was listed after 2013 was excluded from the sample.

In line with the above criteria, Table 4.1 highlights the breakdown of the sample designs by firms and firm-year observations. The initial sample was 170 firms,

consisting of 850 firm-year observations. Out of these, 55 firms, involving 275 firm-year observations from the financial services were excluded, leaving a total of 575 firm-year observations. In addition, 15 firms consisting of 75 firm-year observations were excluded because they were delisted by the NSE in 2016. Out of the remaining firms, 12 firms with 60 firm-year observations did not provide complete information. Consequently, a final sample of 88 firms, comprising 440 firm-year observations was employed.

Table 4.2

Sample Computation for Firms that Meet the Filtering Process

Sample computation for year 2012 to 2016	Firms	Firm-year observations
Total population	170	850
Less:		
Financial Services	55	275
Total Non-financial Service Firms	115	575
Less:		
Firms Delisted by NSE IN 2016	15	75
Firms that did not provide complete information	12	60
Final sampled firms	88	440

Source: NSE, 2016

4.3 Variable Measurement

The current study considered three groups of variables. The first group was the dependent variable (FRQ); this comprised the discretionary accruals and income smoothing. Secondly, were the independent variables, consisting of the AC characteristics (AC size, independence, meetings, financial accounting expertise, legal expertise, female AC members, AC stock ownership, AC tenure, and AC

chair), and finally, the mediator group, which consisted of audit quality (audit fees and Big 4).

4.3.1 Dependent Variable

Measures of FRQ have several dimensions. For that reason, choosing a measurement for the FRQ depends on the estimation and availability of data. For the purpose of this study, discretionary accruals and income smoothing were used as proxies for FRQ, which were extracted from Kothari et al. (2005) and the income smoothing index developed by Eckel (1981).

Following Krishnan et al. (2011); Khalil and Ozkan (2016); Abdullah and Ku-Ismail (2016); and Kothari et al. (2005), Kothari et al. (2005) model was chosen because of its advantages over the conventional DA models like the Jones model and its modified version for controlling the impact of performance when measuring the DA. As such, the inclusion of the performance construct in the model improves the accuracy or reliability of the inferences derived from researches on earnings quality, and it also minimises the issue of heteroscedasticity and misspecification errors that are attributed to accrual models (Kothari et al., 2005; Abdullah & Ku-Ismail, 2016).

The residuals of the model represent the DA. This is estimated as:

$$TAC_{i,t}/TA_{i,t-1} = \beta_1(1/TA_{i,t-1}) + \beta_2(\Delta REV_{i,t}-\Delta REC_{i,t}/TA_{i,t-1}) + \beta_3(\Delta PPE_{i,t}/TA_{i,t-1}) + \beta_4ROA_{i,t-1} + \varepsilon_{it} \dots \dots \dots (1)$$

Where TAC = Total accruals measured as Net income-Cash flow from the operation, $TA_{i,t-1}$ = Lag of total assets of a firm, ΔREV = Changes in revenue from current year to last year, ΔREC = Changes in receivables from current year to last year, PPE =

Gross property plant and equipment at the end of the year, and ROA = Return on asset.

Eckel's (1981) model is determined by the coefficient variation (CV). It is based on the assumption that an intentionally smoothed profit can be the consequence of real profit smoothing or artificial smoothing methods. Real income smoothing reflects managers' actions carried out to control genuine economic transactions or events. Whilst artificial income smoothing is the consequence of accounting manipulations carried out by managers to smooth income (Eckel1981; Yang et al., 2012). Therefore, this model focuses on recognising artificial income smoothing rather than real income smoothing because the former alters the representation of the economic reality. Thus, the model presumes that the variability in sales are the consequence of real income smoothing. On the other hand, the variability of income is the consequence of artificial income smoothing; as such, a company is categorised as an income smoother if:

$$\text{Income Smoothing Index} = \frac{CV\Delta I}{CV\Delta S} < 1 \dots\dots\dots (2)$$

Where ΔS = one year change in sales, ΔI = one year change in income, and CV = coefficient variation = $\sqrt{\text{variance}/\text{mean}}$

The rationale behind the above technique is that if the variability in income is less than the variability in sales, then the company is expected to artificially smooth earnings. In general, a firm is classified as a profit smoother when its ratio of

coefficient variation of sales to coefficient variation of income is less than one. Following Eckel (1981), many prior studies have adopted this method in identifying the presence of income smoothing. These include, Ashari et al. (1994); Carlson and Bathala (1997); Michelson, Jordan-wagner and Wooton (1995); and Yang et al. (2012). The reason for the choice of this technique is that it objectively and statistically distinguishes between smoothers and non-smoothers. More importantly, contrary to other income smoothing techniques, for instance Atik (2009), Godfrey and Jones (1999), and Moses (1987), Eckel's index estimates the incidence of earnings smoothing without applying subjective judgment, earnings predictions, expense determination or modelling of expected income (Ashari et al., 1994; Albrecht & Richardson, 1990). It was argued that the specification of an expectation model is ambiguous and thus, inadequate specifications may bring about inferences that are attributed to random errors (Ashari et al., 1994). Similarly, the classificatory model may result in the misspecification of a company smoothing income since examining income of two successive periods cannot generalise that managers distort accounts to smooth income as a temporal rise or reduction in income may be due to chance (Ben Rejib Attia, 2012). Hence, Eckel's model incorporates the aggregate effect of multiple potential smoothing variables instead of only one by examining earnings variability with sales variability as a control for the real income smoothing and naturally smoothed income stream.

Therefore, income streams have been examined in this study; using net income (NI). Following Ashari et al. (1994); Carlson and Bathala (1997); Michelson, et al.

(1995); Yang et al. (2012); and Albrecht and Richardson (1990), net income from an operation is equal to operating income less depreciation and amortisation.

Table 4.3
Summary of the Dependent Variables Measurement

Variable	Acronyms	Measurement
Kothari et al. (2005) Discretionary accruals	DA	Measured by the absolute value of residual from Kothari et al. (2005); (Abdullah & Ku-Ismael, 2016, Krishnan et al., 2011; Khalil & Ozkan, 2016)
Financial Reporting Quality (Income smoothing)	IS	Coefficient variation of change in income divide by coefficient variation of Change in sales. A firm is categorized as income smoother if its $CV\Delta I / CV\Delta S < 1$ (Albrecht & Richardson, 1990; Ashari et al., 1994; Carlson & Bathala, 1997; Yang et al., 2012). Thus, a dummy 1 was assigned to a firm classified as income smoother and otherwise 0.

4.3.2 Independent Variable

For the AC characteristics, different measures have been used to measure the individual characteristics of the AC. Some studies used dummy variables (0 and 1), for example, Cohen et al. (2014); Zaman, Hudaib and Haniffa (2011); Dhaliwal et al. (2010); and Sultana et al. (2013). Other studies used the total numbers of individual constructs or ratios of constructs to the total number of AC members, for example, Nelson and Devi (2013); Saleh, Iskandar and Rahmat (2007); and Sultana (2015).

Consistent with prior studies (Abernathy et al., 2014; Xie et al., 2003; Klein, 2002; Krishnan et al., 2011; Yermack, 2004), this study used the total number of AC members in some of the attributes of the committee and the percentages of some characteristics to the total number of AC members. In line with Al-Rassas and Kamardin (2015), Goodwin-Stewart and Kent (2006), and Carcello et al. (2002), audit fees was measured as the natural logarithm of the total fees for audit services. Consistent with Abernathy et al. (2014) and Cohen et al. (2014), BIG4 is measured as a dummi variable of 1 when a firm is audited by BIG4 auditors and 0 when a firm is audited by non-BIG4 auditors. The details of the measurements of the independent variables and their definitions are shown in Table 4.4.

Table 4.4
Summary of Independent Variable Measurement

Variable	Acronyms	Measurement
AC Size	ACS	Total number of AC members on the board (Sultana et al., 2013; Muhammed et al. 2017)
AC Independence	ACI	Ratio of number of independent non-executive directors on audit committee to the total number of audit committee (Bala & Kumai, 2015; Krishnan et al., 2011; Miko, 2016; Sultana, 2015)
AC Mattings	ACM	Number of meetings held by audit committee during the year (Abernathy et al., 2014; Sultana, 2015; Xie et al., 2003)
AC Financial Accounting Experts	ACFAE	Ratio of AC members who qualified as professional accountants with (ANAN or ICAN) to the total number of audit committee (Abernathy et al., 2014; Krishnan et al., 2011)

Table 4.4 (Continued)

Variable	Acronyms	Measurement
AC legal expert	ACLE	Ratio of AC members with legal background such as Bachelors of Laws, Masters in Laws, members of Nigerian Bar Association to the total number of AC members (Abernathy et al., 2014; Krishnan et al., 2011)
Female AC member	FACM	A dummy variable one (1) if there is at least one female AC member on AC and otherwise zero (0) (Martinez et al., 2016; Thiruvadi & Huang, 2011)
AC Stock Ownership	ACSO	Natural log of number of shares held by AC (Kibiya et al., 2016b)
AC tenure	ACT	Average tenure of AC members (Abernathy et al., 2014; Krishnan et al., 2011)
AC chair	ACC	Measured as 1 if the AC is chaired by a shareholder and 0 when the AC is chaired by a director (Mohammed, Che-Ahmad & Malek, 2018; Sharma et al., 2009)
Mediator (Audit Quality)	AUQ	Proxy by Audit Fees and Big4
Audit fees	AUF	Natural logarithm of audit fees for the year (Abernathy et al., 2014; Carcello et a., 2002)
Big4 Auditors	BIG4	Dummy variable indicating 1 if a firm is audited by big 4 and 0 otherwise (Abernathy et al., 2014; Cohen et al., 2014)

4.3.3 Control Variables

The study used some variables as a control for the firms' specific attributes and governance attributes that have been used by prior studies on AC and FRQ (Abernathy et al., 2014; Badolato et al., 2014; Beasley, 1996; Fodio et al., 2013; Krishnan et al., 2011; Saleh et al., 2007; Sultana, 2015). Specifically, the control variables of this study included board financial expertise (BF), board independence

(BI), firm size (FS), leverage (LEV), firm age (FAGE) and sales growth (SGROWTH).

Consistent with Baxter and Cotter (2009); Krishnan et al. (2011); and Badolato et al. (2014), the study controlled for two governance attributes were BF (measured as percentage of directors with financial and accounting expertise to the total number of directors on the board) and BI (measured as percentage of independent directors to the number of directors on the board), which have been argued to have significant influence on monitoring effectiveness and promoting financial reporting process (Carcello & Neal, 2003; Klein, 2002). Thus, it has been expected that directors with financial expertise outside the AC could contribute in enhancing FRQ because of their knowledge and skills. This is because financial experts source information not only from financial reports, but also from a diverse range of other resources which, in turn, improves FRQ (Dhaliwal et al., 2010; Marzuki et al., 2016). Hence, this study has presumed that BF has a positive significant association with FRQ. Furthermore, it has been argued that a larger ratio of independent directors on the boards reduces the likelihood of earnings management and improves the FRQ of firms (Alves, 2014; Beasley, 1996; Davidson, Goodwin-Stewart & Kent, 2005; Klein, 2002). In line with the above, the study has predicted a positive significant relationship between BI and financial reporting quality.

Similarly, consistent with Abernathy et al. (2014); Davidson et al. (2005); Klein (2002), Krishnan et al. (2011); and Vafeas (2005), the study also controlled for firm size (FS) measured as the natural logarithm of total assets and for leverage (LEV) measured as total debt to total equity ratio. It has been argued that larger firms are

associated with higher financial reporting quality since they are more closely monitored in the market (Bala & Kumai, 2015; Beasley, 1996; Fodio et al., 2013; and Klein, 2002). Therefore, this study expects a positive significant relationship between FS and FRQ. Additionally, prior studies contended that highly leveraged firms are associated with a higher level of accruals or asymmetric timeliness of accruals which, in turn, limits the quality of financial reporting (Davidson et al., 2005; Klein, 2002; Krishnan et al., 2011; Sultana et al., 2013). Since firms that have financial deterrents are more likely to engage in an income increasing EM to prevent possible loss, thus financial constraints lower the quality of their financial reporting (Park & Shin, 2004). Therefore, this study has assumed a negative significant relationship between LEV and FRQ. Consistent with Sun et al. (2011) and Chen et al. (2010) the study expects a positive relationship between SGROWTH and FRQ. Finally, following Gao and Huang (2016), Leung, Srinidhi and Xie (2017) the study controlled for Firm age (AGE) and has assumed a positive relationship between older firms and FRQ. The details of measurement of the control variables and their definitions are shown in Table 4.5. The details of the measurement of the control variables and their definitions are shown in Table 4.5.

Table 4.5
Summary of Control Variables Measurement

Variable	Acronyms	Measurement
Board expertise	BE	Percentage of board members with financial knowledge to total number of board members (Bala & Kumai, 2015; Baxter & Cotter, 2009)
Board independence	BI	Percentage of independent directors on the board (Krishnan et al., 2011; Sultana, 2015)
Firm Size	FS	Natural logarithm of total asset (Krishnan et al., 2011; Sultana, 2015)
Leverage	LEV	Long term debt to total assets (Jizi & Nehme, 2018; Krishnan et al., 2011)
Firm age	FAGE	Measured as year of observation minus year of listing (Kouaib & Jarboui, 2017; Gao & Huang, 2016)
Sales growth	SGROWTH	Change in sales divided by previous sales (Collins et al., 2017; Huang et al., 2017)

4.4 Data Analysis Technique

The data for this study were panel data which consisted of two attributes (cross sectional and time series). The reason for the adoption of panel data was because the study examined data for different companies over a period of a number of years. Furthermore, descriptive and inferential statistics were used in analysing the data. Descriptive statistics provide a detailed explanation of the nature of the data. A

correlation was used to determine the linear relationship amongst the variables of the study. A regression analysis was employed to determine the influence of AC characteristics and quality of financial reporting as well as the mediating effect of audit quality on the relationship between AC attributes and quality of financial reporting. The study also conducted some robustness tests using Stata to enrich the reliability and validity of the statistical inferences. These included the normality test, multicollinearity test, heteroscedasticity, and serial correlation test.

4.4.1 Normality Test

The normality test is one of the assumptions that requires a normal distribution of the disturbance term. It should be noted, however, that this normality applies to the predictor variables (Gujarati, 2004). Data that are normally distributed may enable the generalisation of the finding from the population. However, a high variance from the normal distribution may result in a misleading conclusion. Prior studies used several devices that can be employed to determine the normality of a distribution, these include skewness and kurtosis or using some items of descriptive statistics, such as simple mean, median or standard deviation.

4.4.2 Multicollinearity Test

Multicollinearity test is a diagnostic test that is usually conducted to check the presence of collinearity or otherwise among the predictors. This is usually conducted using correlation. The correlation only shows the possibility of the existence of multicollinearity through the use of correlation matrix which according Gujarati (2004) the association between the predictors must not exceed 0.8. Where the

correlation is more than 80% that may pose suspicious of the presence of multicollinearity. Then, a further test is recommended to confirm the existence of multicollinearity and this is usually done through variance inflation factor (VIF). An average value of less 10 and a tolerance value of less 1 from the VIF test indicate nonexistence of multicollinearity (Gujarati, 2004).

4.4.3 Homoscedasticity Test

One of the significant linear assumptions is homoscedasticity. It represents a situation in which the random disturbance in the association between the predictor variables and the explained variable is constant across all the values of the predictor variables. On the contrary, heteroscedasticity is the violation of this assumption. Heteroscedasticity exists in a situation where random disturbance differs across all the values of a predictor variable. However, the presence of heteroscedasticity always distorts the significance of the statistical inference (Gujarati, 2004; Tabachnick & Fidell, 2007).

4.4.4 Regression Analysis Model

This study employed a multivariate multiple regression which is normally applied in modelling the association between a set of dependent variables and multiple predictor variables (Krzanowski, 2005). For income smoothing on Eckel's Model (1981), following Ashari et al. (1994); Carlson and Bathala (1997); and Yang et al. (2012), a binary logit regression was employed because they are represented by dichotomous variables (1 and 0). As stated in Chapter One, the study has been aimed at examining the influence of AC characteristics and FRQ and also determining the

mediating effect of audit quality on the association between the AC characteristics and the FRQ of the listed companies in Nigeria.

4.4.5 Testing the Mediation

Different methods have been employed in testing the mediation affect, but the most widely used are the multiple regression and structural equation model (SEM) (Li, 2011). For the purpose of this study, a multiple regression was used. The reason for the adoption of a multiple regression was that it was considered to be more appropriate, especially when dealing with a categorical dependent variable. This is because the measurements in a model may have an influence on the estimation of the mediation effect (Li, 2011). Thus, multiple regression provides an option for categorical regression (logistic or probit regression) during estimation. However, the most frequently applied methods of estimation in SEM presume that the latent and observed variables are continuous. Also, they do not consider multicollinearity (Li, 2011). Thus, Kenny (2016) stressed the importance of checking the presence of linearity, multicollinearity, normality, and heteroscedasticity before starting a mediational analysis.

Different approaches have been employed in testing the mediation effects under multiple regression. These include the causal steps developed by Baron and Kenny (1986), product of coefficients and difference of coefficient methods, and Sobel Test (Hayes, 2009). Therefore, this study has adopted the causal steps approach and Sobel Test to test the direct and mediating effects, respectively. It has been argued that combining both the causal steps approach and Sobel test, which tests the product of

coefficients and confidence interval for the mediated effect, produce a more comprehensive analysis than using any single method (Holmbeck, 1997). The reason for the adoption of the causal steps approach and the Sobel test was that the former has been used to prove the mediated effect whilst the latter has been used to test the confidence interval of the mediation effect. It has been contended that failure to prove the mediation effect will lead to a false positive conclusion; whereas, the consequence of failure to test for the confidence interval includes both false positive and false negative conclusions (Holmbeck, 2002).

4.4.6 The Causal Steps

This explains a sequence of relationships that serve as conditions to prove a mediated effect. These include (a) the outcome variable Y must be significantly correlated with the predictor variable X. (b) the mediating variable M must be significantly correlated with the predictor variable X. (c) the outcome variable Y must be significantly correlated with the mediating variable M. (d) the impact of the independent variable X (β) on the outcome variable Y should be less in absolute terms compared to the impact in (a) (Baron & Kenny, 1986; Hayes, 2009). These conditions explain the framework and hypotheses of this study thus, leading to four multiple regression equations on each model of the study. However, some researchers argue that these conditions must not necessary be met before mediation takes place since the relationship is not necessary or sufficient for causation (Hayes & Rockwood, 2017). However, more emphasis should be given to conditions a and b (Kenny, Kashy & Bolger, 1998). This methodology has been adopted by prior studies (Baraibar-Diez & Luna-Sotorrío, 2018; Cuadrado-Ballesteros et al., 2017;

Jintawattanagul et al., 2016; Kouaib & Jarboui, 2017). As explained above, the models are estimated below based on Eckel's Model (1981) and Kothari et al.'s Model (2005), representing FRQ (proxied by EM).

Model 1a (H₁-H₉):

$$FRQ_{it} = \beta_0 + \beta_1 ACS_{it} + \beta_2 ACI_{it} + \beta_3 ACM_{it} + \beta_4 ACFAE_{it} + \beta_5 ACLE_{it} + \beta_6 FACM_{it} + \beta_7 ACSO_{it} + \beta_8 ACT_{it} + \beta_9 ACC_{it} + \beta_{10} BE_{it} + \beta_{11} BI_{it} + \beta_{12} FS_{it} + \beta_{13} LEV_{it} + \beta_{14} FAGE_{it} + \beta_{15} SGROWTH_{it} + \varepsilon_{it} \dots \dots \dots (3)$$

Model 1b (H_{10a}-H_{10i})

$$AUQ_{it} = \beta_0 + \beta_1 ACS_{it} + \beta_2 ACI_{it} + \beta_3 ACM_{it} + \beta_4 ACFAE_{it} + \beta_5 ACLE_{it} + \beta_6 FACM_{it} + \beta_7 ACSO_{it} + \beta_8 ACT_{it} + \beta_9 ACC_{it} + \beta_{10} BE_{it} + \beta_{11} BI_{it} + \beta_{12} FS_{it} + \beta_{13} LEV_{it} + \beta_{14} FAGE_{it} + \beta_{15} SGROWTH_{it} + \varepsilon_{it} \dots \dots \dots (4)$$

Model 1c (H₁₁)

$$FRQ_{it} = \beta_0 + \beta_1 AUQ_{it} + \beta_2 BF_{it} + \beta_3 BI_{it} + \beta_4 FS_{it} + \beta_5 LEV_{it} + \beta_6 FAGE + \beta_7 SGROWTH + \varepsilon_{it} \dots \dots \dots (5)$$

Model 1d (H₁₂)

$$FRQ_{it} = \beta_0 + \beta_1 ACS_{it} + \beta_2 ACI_{it} + \beta_3 ACM_{it} + \beta_4 ACFAE_{it} + \beta_5 ACLE_{it} + \beta_6 FACM_{it} + \beta_7 ACSO_{it} + \beta_8 ACT_{it} + \beta_9 ACC_{it} + \beta_{10} AUQ_{it} + \beta_{11} BE_{it} + \beta_{12} BI_{it} + \beta_{13} FS_{it} + \beta_{14} LEV_{it} + \beta_{15} FAGE_{it} + \beta_{16} SGROWTH_{it} + \varepsilon_{it} \dots \dots \dots (6)$$

After the above conditions were applied, the Sobel Test was also employed to test the confidence intervals of the mediated effects using the formula below:

$$z = \frac{\beta_c * \beta_b}{S_b * S_c} \qquad S_b * S_c = \sqrt{(\beta_c^2 * S_c^2) + (\beta_b^2 * S_c^2)}$$

Note that, the mediated effect is significant if $z \geq \pm 1.96$

Where;

FRQ = financial reporting quality represented by DA = Discretionary accruals from Kothari et al.'s Model (2005), IS = Smoothing index (Eckel, 1981), ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial accounting expert, ACLE = AC legal expert, FACM = Female AC members, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, QUQ (Mediator proxied by audit fees and Big4), BE = Board financial expertise, BI = Board independence, FS = Firm size, LEV = Leverage, SGROWTH = Sales growth, FAGE = Firm age, β_0 = Intercept, β = Coefficients, z = confidence interval, β_c = Unstandardised parameter of the relationship between the mediator and outcome variable, β_b = Unstandardised parameter of the relationship between the independent variable and mediator, S_b = Standard residual of the mediator, S_c = Standard residual of the predictor variable, i = firm, t = time, and ε = Error term.

4.5 Summary of the Chapter

This chapter has provided information on the research design employed by the study, the population, and the selection of the sample of the study. The chapter also discussed the data sources and measurement of the variables. It also contained the specifications of the models of the study as well as their explanations. This has been aimed at examining the mediating effect of audit quality on the association between the AC characteristics and the FRQ of the listed companies in Nigeria.

CHAPTER FIVE
FINDINGS AND ANALYSIS I (DA)
AUDIT COMMITTEE CHARACTERISTICS AND
DISCRETIONARY ACCRUALS: THE MEDIATING EFFECT OF
AUDIT QUALITY

5.1 Introduction

This chapter presents the results and analyses of the first segment of objectives one to four of the thesis, which were: 1) to determine the influence of the audit committee characteristics on the FRQ proxied by EM measurement using DA of the listed companies in Nigeria, 2) to determine the effect of the audit committee characteristics on the audit quality (AUF and BIG 4) of the listed companies in Nigeria, 3) to assess the effect of the audit quality on the FRQ of the listed companies in Nigeria, and 4) to examine the mediating effect of the audit quality on the relationships between the AC characteristics and the FRQ of the listed companies in Nigeria. The chapter is divided into seven sections. Section 5.1 contains the overview of the chapter, 5.2 explains the population, sampling criteria and the post estimation tests of the data employed in this study. Section 5.3 shows the descriptive statistics connected to the regression variables. Section 5.4 contains the univariate analysis of the regression variables. Section 5.5 explains the findings of the multivariate analysis by itemising the relationships between the AC characteristics and FRQ (proxied by DA), AC characteristics and audit quality (represented by the AUF and BIG 4), and audit quality and DA, and the mediating effect of audit quality on the relationships between the AC characteristics and DA. An additional analysis is provided in Section 5.6 and, finally, the chapter ends with a summary.

5.2 Population of the study

The population comprised a total number of 170 firms listed on the NSE market as of the 31st December 2016. Table 4.1 reveals that the total number of 170 firms were from 10 dissimilar sectors of the NSE. It is deduced from Table 5.1 that financial services occupied the highest number of firms, having 55 firms representing 32.35%. Next to financial services were the consumer goods and services, having a total number of 23 firms representing 13.53%, respectively. Next was industrial goods with 8.82%, followed by oil and gas, having 7.06%, health care with 6.47%, ICT with 5.29%, construction and real estate with 4.12%, conglomerates with 3.52%, agriculture with 2.94%, and finally, natural resources with the lowest figure of 2.35%.

Table 5.1
Detailed of Samples Firms Listed by the NSE in 2016

Industries	No. of Firms	%	Obs.
Agriculture	5	4.35	25
Conglomerate	6	5.22	30
Construction/ Real Estate	7	6.09	35
Consumer Goods	23	20.00	115
Health Care	11	9.57	55
ICT	9	7.83	45
Industrial Goods	15	13.04	75
Natural Resources	4	3.48	20
Oil and Gas	12	10.43	60
Services	23	20.00	115
Total	115	100	575

Source: NSE, 2016

5.2.1 Sample Size and Selection Procedure

Table 5.2 depicts the breakdown of the sample selection by firms and firm-year observations with their respective percentages. The initial sample was 115 firms

consisting of 575 firm-year observations. Out of these, 15 firms consisting of 75 firm-year observations (13.04%) were excluded because they were delisted by the NSE in 2016. Move over, 12 firms with 60 firm-year observations (10.43%) did not provide complete information. Consequently, a final sample of 88 firms comprising 440 firm-year observations (76.53%), for the period from 2012 to 2016, was employed.

Table 5.2
Sample Computations for the Firms

Sample computation for year 2012 to 2016	Firms	Firm-year observations	%
Total Sample	115	575	100
Less:			
Firms Delisted by NSE IN 2016	15	75	13.04
Firms that did not provide complete information	12	60	10.43
Final sampled firms	88	440	76.53

5.2.2 The Post-Estimation Test

An analysis that involves a number of units and cross-sections requires an examination to prove the quality of the raw data. This includes various assumptions, such as normality, multi-collinearity, linearity, and homoscedasticity. As suggested by Tabachnick and Fidell (2007) and Pallant (2011), these assumptions are tested to obtain more reliable inferences from a given data set. The following subheadings explain the application of these tests in this study.

5.2.3 Outliers

Outliers are observations from a dataset with exceptional characteristics different from the other observations (Hair, Barry, Babin & Anderson, 2014). To control the outliers in the data for this study, all of the continuous variables with exceptional observations were winsorised at 5% of the top and bottom. Dixon (1980) suggests that winsorisation of the dataset provides more steady results and trimmed means. Previous studies, such as Barth Landsman, Lang and Williams (2012), Farber et al. (2016), Ittonen (2010), Kothari (2001) and Yang and Krishnan (2005), have used winsorisation to alleviate outliers in the data.

5.2.4 Normality Test

Normal distribution is a vital condition in regression analysis. Nevertheless, it is equally vital to note that the OLS estimator is reliable and asymptotically normal whether or not the normality assumption is achieved (Wooldridge, 2013). Furthermore, normally distributed data when employing financial facts is almost impossible since the distribution is indiscriminately randomly distributed amongst and within firms (Wooldridge, 2013). Fortunately, the non-normality does not have a significant impact on the results of the OLS regression in a moderately large sample study (Wooldridge, 2013). Unluckily, “there are no general prescriptions on how big the sample size must be before the approximation is good enough” (Wooldridge, 2013, p. 157). However, Tabachnick and Fedell (2013) suggested that a deviation from skewness and kurtosis for a study of more than 200 will not make an outright difference. In spite of these theoretical justifications, an additional test of normality was conducted. First, a histogram and density test for normality was performed. This

was also supplemented by the Jarque-Bera normality test for residuals. Figure 5.1 provides the result of the histogram kdensity test for normality and the Jarque-Bera normality test for residuals. The results of the histogram kdensity test for normality indicate that the data was relatively normally distributed. Whereas, the p-value of 0.103 from the Jarque-Bera normality test for residuals also indicates that the data was moderately normally distributed.

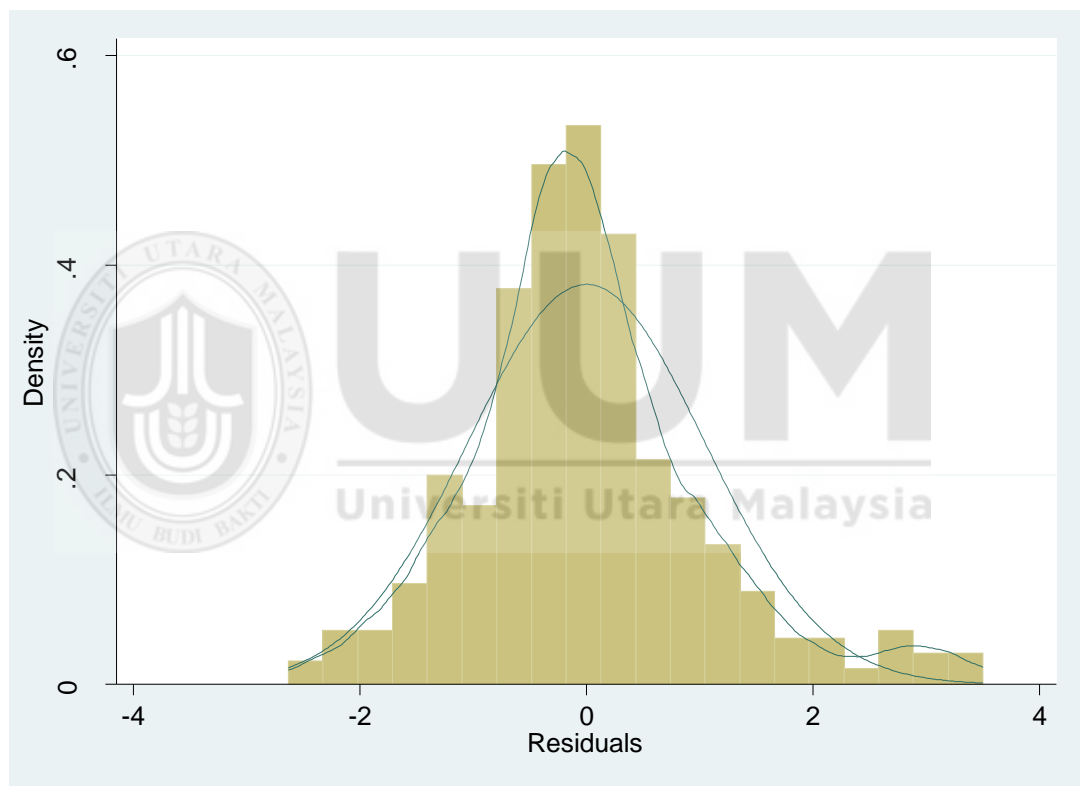


Figure 5.1
Residual Distribution

5.2.5 Heteroscedasticity and Model Selection Criteria

The second post-estimation test is homoscedasticity. It explains the homogeneity of the variance. Since panel data was used for the study, this may have led to errors that were clustered and presumably correlated overtime. Also, this may have affected the

outcome of the criterion variable and the predictor variables, thus leading to misleading inferences (Petersen, 2009; Tsalavoutas et al., 2012; Kim, 2013). Hence, there was need to control that. Consequently, fixed the effect regression and the random effect regression were run. The Hausman Test of all the models suggests that the random regression was more suitable for the data since the p-values were not significant (0.591, 0.1182, 1.000, 0.149, and 0.5947). This indicates that no company's specific attributes affected the criterion variable. A further test, the „Breusch and Pagan Lagrangian Multiplier Test for Random Effect“ (LM Test) was performed to see if there was a statistical variance amongst the units in the panel.

The test results disclose that the random model was more suitable for this study. The fact that the results from the „Breusch-Pagan and Cook-Weisberg tests for heteroscedasticity“ for all of the models except one (AUF and DA) reveal significant p-values (0.001, 0.009, 0.070, 0.036, and 0.001) may have caused the standard errors to be biased. As a corrective measure, these models were re-estimated using heteroscedasticity-consistent robust standard errors as suggested by Hayes and Cai (2007) and Wooldridge (2013). Following the above procedures, no violation of homoscedasticity was assumed and the inferences were made based on this estimation for all the models since the robust function corrects the problem of bias in the standard errors, and provides estimates that are more efficient, and also provides reasonably accurate p-values (Williams, 2015). This estimate was also adopted by prior studies, such as Al-Rassas (2015), Chen et al. (2010), Gao and Huang (2016), Krishnan et al. (2011), Lai, Srinidhi and Tsui (2017) and Sultana (2015).

5.2.6 Multi-collinearity Test

This is a diagnostic technique that is usually conducted to check the presence of collinearity or otherwise amongst the predictors. This is widely conducted using correlation. The correlation only shows the likelihood of the existence of multi-collinearity through the use of a correlation matrix, for which, according to Gujarati (2004), „the association between the predictors must not exceed 0.8“. Where the correlation is more than 80%, it may pose suspicions of the presence of multi-collinearity. Then, a further test is recommended to confirm the existence of multi-collinearity, and this is usually done through the use of the variance inflation factor (VIF). An average value of less than 10 and a tolerance value of less than 1 from the VIF test indicate the nonexistence of multi-collinearity (Gujarati, 2004). The existence of such a problem decreases the fitness of the regression model, thus lessening the predictive power of any predictor variable to the extent to which it is linear to other predictor variables (Pallant, 2007). Two assumptions were employed to check for the incidence of multi-collinearity problems in this study. The first approach focused on the values of tolerance and the Variance Inflation Factors (VIF). The second technique was used by checking the values of the correlation between one predictor variable and another (Pallant, 2007; Wooldridge, 2013). Table 5.3 presents the correlation matrix for the variables of the study. Overall, the results show that multi-collinearity may have posed a threat to the research variables. The highest correlation amongst the predictor variables was 51% between the audit fee (AUF) and the firm size (FS). This may reflect a strong correlation since Gujarati (2003) considered a correlation above 50% to be a strong correlation. Luckily, Hair et al. (2014) opined that a correlation of less than 90% may not be a problem for

estimation. Consequently, this correlation between the AUF and the firm size did not pose a threat to the estimation model with any serious multi-collinearity problem. Table 5.3 reveals that the ACS and ACI were positively correlated with the DA. Though these correlations were not significant, the negative coefficient of both the ACS and ACI may reflect the nature of their relationship.

The ACMs and ACFAEs were found to be negatively correlated with the DA. This is deduced from their coefficients at the 10% and 5% levels of significance. This suggests that the ACMs and ACFAEs had inverse relationships with the DA, though these relationships can best be described by regression since correlation does not cause causation. The ACLEs and FACMs had positive correlations with the DA at the 1% level of significance. This can serve as an initial clue of the effect of legal experts and female AC members on the DA. It is also revealed in Table 5.3 that the ACSO and ACT had positive but insignificant correlations with the DA. The ACC had a negative correlation with the DA. This is observed from the correlation coefficient at the 10% level of significance.

Table 5.3*Correlation Matrix of the Relationship between the AC characteristics, Audit quality and discretionary accruals*

Variable	DA	ACS	ACI	ACM	ACFAE	ACLE	FACM	ACSO	ACT
DA	1								
ACS	-0.088	1							
ACI	-0.015	0.065	1						
ACM	-0.095*	0.48 ***	0.033	1					
ACFAE	-0.152**	0.035	0.113*	-0.046	1				
ACLE	0.13 ***	0.24 ***	0.055	0.14 **	-0.026	1			
FACM	0.21 ***	0.23 ***	0.04	0.23***	0.068	0.30***	1		
ACSO	0.006	0.04	-0.048	0.101	-0.012*	-0.040*	-0.005	1	
ACT	0.101	0.13 **	0.125	0.067*	0.006	0.17**	0.12**	-0.073	1
ACC	-0.065*	-0.21 ***	0.13 **	-0.13	0.121	0.013*	-0.13**	-0.084	-0.096*
BI	-0.114	0.010*	0.14**	0.100*	0.19***	-0.18**	-0.039*	0.020*	0.062
BE	-0.020*	0.45 ***	0.083	0.28***	0.079*	0.051*	0.051*	0.045	0.084
FS	-0.111	0.100*	-0.025	0.096*	0.03	0.028	0.044	-0.085	0.100*
LEV	-0.027*	0.032*	-0.028	0.045	0.008	-0.037	0.025	-0.149*	0.03
FAGE	-0.045	-0.065	-0.098	0.102	0.065	-0.105	-0.033	-0.069	0.037
SGROWTH	-0.002	-0.075	-0.051	-0.116	-0.003	0.007	-0.061	-0.04	-0.021
AUF	-0.155**	0.31 ***	0.034	-0.113*	0.20***	-0.007	-0.027	-0.083	0.053
BIG4	0.022	-0.007	0.114	-0.071	0.21***	0.059	0.16**	0.086	-0.13**
	ACC	BI	BE	FS	LEV	FAGE	SGROWTH	AUF	BIG4
ACC	1								
BI	-0.045	1							
BE	-0.011	0.185*	1						
FS	0.095*	-0.098*	0.21**	1					
LEV	-0.048	0.031	0.229*	0.401	1				
FAGE	0.089	0.042	0.13**	0.199	0.061*	1			
SGROWTH	-0.075	0.042	-0.14**	-0.147	-0.178*	-0.09**	1		
AUF	-0.17**	0.074	0.30**	0.506	0.271	0.17***	-0.0149	1	
BIG4	-0.037	0.093*	0.18**	0.175	0.055*	0.062	-0.0516	0.21**	1

Note table: DA= discretionary accruals, ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age, SGROWTH = sales growth AUF = audit fees and BIG4 = Big4 auditors (KPMG, Price Waterhouse Coopers, Ernst & Young and Deloitte) , * p<0.01, ** p<0.05, *** p<0.001. = significant at 1%, 5% and 10% respectively

To further substantiate the likelihood of multi-collinearity amongst the predictors, the VIF test has been performed for each predictor variable. Table 5.4 designates the values of tolerance and the VIF for the AC characteristics, audit quality, and control variables. The tolerance values of less than 1 and VIF of less than 10, as depicted in Table 5.4, indicate that there was no evidence of any multi-collinearity issue amongst the independent variables.

Table 5.4
Collinearity Diagnostics of the AC Characteristics, Audit Quality and Control Variables

Variable	VIF	Tolerance
ACS	1.880	0.531
ACI	1.080	0.925
ACM	1.310	0.764
ACFAE	1.110	0.900
ACLE	1.280	0.781
FACM	1.280	0.784
ACSO	1.040	0.966
ACT	1.090	0.921
ACC	1.140	0.874
BI	1.210	0.825
BE	1.290	0.775
FS	1.080	0.927
LEV	1.060	0.947
FAGE	1.080	0.923
SGROWTH	1.060	0.945
AUF	1.740	0.575
BIG4	1.230	0.814

Note: DA= discretionary accruals, ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age, SGROWTH = sales growth AUF = audit fees and BIG4 = Big4 auditors (KPMG, Price Waterhouse Coopers, Ernst & Young and Deloitte) and VIF = Variance Inflation Factor.

5.2.7 Linearity

Linearity assumes that a relationship between the outcome variable and the predictor variable should be linear. This relationship describes the extent to which changes in the predictor variable affect the outcome variable. In this study, the linearity

relationship was ascertained by comparing the standard deviation of the outcome variable with the standard deviation of the model's residual. According to Hair et al. (2014) and Garson (2012), linearity is obtained when the standard deviation of the outcome variable is greater than the standard deviation of the model's residual. Table 5.5 presents the standard deviation of the outcome variable with the standard deviation of the model's residual. Table 5.5 shows that the standard deviation of the outcome variable was greater than the standard deviation of the model's residual. Thus, the linearity assumption was achieved.

Table 5.5
Standard Deviation of the Discretionary accruals and Model Residual

Variable	Standard Deviation
Absolute Discretionary accruals	1.134
Model Residual	1.043

5.2.8 Model Specification Test

The essence of the model specification test in the regression model is to ensure that the model is correctly specified. This postulation "assumes implicitly, if not explicitly, that the model used to test an econometric theory is correctly specified" (Gujarati, 2004, p. 73). He further established that a violation of this assumption may be the consequence of or a mixture of omitting important variables, variable measurement errors, inclusion of unnecessary variable(s) or selecting the wrong functional form, or by adopting an erroneous stochastic assumption about the variable of the model (Gujarati, 2004). In this study, the model specification test was conducted for all estimations using a link test. The assumption of this test is the confidence interval of the hatsq (Pregibon, 1980). The $_hatsq$ is assumed to be

insignificant. Satisfying this condition as presented for every regression in the subsequent sections indicates that the regression models were correctly specified.

5.3 Descriptive Statistics Related to the Regression Variables

Table 5.6 presents the descriptive statistics vis-à-vis the regression variables employed in addressing objectives one to four of this study. The absolute discretionary accruals had a mean value of 2.226 and a minimum and maximum of 0.010 and 5.903, respectively. These values were lower than the figures reported in the studies of Abdul Malik and Che-Ahmad (2016), Eze (2017), Madawaki and Amran (2013), Okolie (2014) and Hassan and Ahmed (2012). The variations could be as a result of the differences in the sample sizes used by these studies. The ACS had a mean (average) of 5 members with a minimum and a maximum of 4 and 6 members, respectively. The minimum 4 and maximum 6 members in the AC reported in this study implies that some firms had conformed with the recommendation of the CAMA (2004) in regards to having an equal representation of directors and shareholders in the audit committee. The result is similar to what was documented in the studies of Eze (2017), Kibiya et al. (2016a), Madawaki and Amran (2013), Miko (2016) and Moses et al. (2016). Comparatively, the result is relatedly different from what was reported by Abdullah and Ku-Ismail (2016) and Yang and Krishnan (2005). This could be as a result of the regulatory differences amongst the countries of the study. The table also reports an average of 43% representation of independent directors in the AC. It also shows a minimum (25%) and maximum (50%) independent directors in the AC, respectively. This minimum figure of 25% representation of independent directors indicates a compliance with

the global recommendation of having at least one independent director in the AC. The figure was slightly similar to what was reported by Bala and Kumai (2015), Usman et al. (2017) and Abubakar (2016), but lower than the figure reported by Krishnan and Visvanathan (2009) and Bamahros and Bhasin (2016).

Table 5.6

Descriptive Statistics between AC, Audit Quality and Discretionary Accruals.

Var.	Med.	Mean	Min	Max	Std.D	Skew	Kurt
DA	2.193	2.266	0.010	5.903	1.134	0.694	4.464
ACS	6.000	5.473	4.000	6.000	0.861	-1.072	2.212
ACI	0.500	0.430	0.250	0.500	0.094	-0.740	1.855
ACM	4.000	3.791	3.000	5.000	0.624	0.180	2.420
ACFAE	0.167	0.209	0.000	0.500	0.135	0.462	2.905
ACLE	0.167	0.096	0.000	0.286	0.094	0.182	1.623
FACM	1.000	0.543	0.000	1.000	0.499	-0.173	1.030
ACSO	230000	3780000	12768	30000000	7910000	2.436	7.849
ACT	5.000	5.107	3.000	8.000	1.437	0.209	2.142
ACC	1.000	0.889	0.000	1.000	0.315	-2.471	7.105
BI	0.714	0.715	0.060	0.923	0.112	-0.676	4.608
BE	0.500	0.501	0.250	0.750	0.140	0.060	2.081
FS	13000000	16300000	1152490	34000000	2100000	0.248	2.089
LEV	0.002	0.011	0.000	0.072	0.019	2.223	6.866
FAGE	24.000	23.818	4.000	42.000	13.288	-0.184	1.534
SGROWTH	0.000	0.270	-5.256	7.508	2.636	0.842	5.013
AUF	14000000	27427890	2000000	156178000	38879720	2.517	8.354
BIG4	1.000	0.580	0.000	1.000	0.494	-0.322	1.104
Residual	-0.123	0.000	-2.623	3.481	1.043	0.665	4.214

Note: DA= discretionary accruals, ACS = AC size, ACI = AC, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age, SGROWTH = sales growth AUF = audit fees and BIG4 = Big4 auditors (KPMG, Price Waterhouse Coopers, Ernst & Young and Deloitte).

Table 5.6 also shows that the AC had meetings at least 4 times in a year. The result is similar to what was reported by Ogbaisi, Izedonmi and Dabor (2016), Lee and Mande (2005) and Haji and Anifowose (2016). This is not surprising, because the result is consistent with most of the universal recommendations on ACMs. It is also

perceived from Table 5.6, that on average, there were 21% of the AC members with financial accounting expertise. Whilst some firms did not have any financial accounting experts in their ACs, other firms had up to 50% members with financial accounting expertise. This implies that some firms did not comply with the recommendation of the SEC Code of CG (2011) of having at least one member with management and financial accounting knowledge in the AC. This was similar to the results of Bruynseels, Krishnamoorthy and Wright (2015), Nelson and Devi (2013), and Moses et al. (2016).

Table 5.6 also reports an average of 10% legal experts in the AC whilst at a peak some firms had up to 29% directors with legal backgrounds. This figure was relatively different with the results of Jintawattanagul et al. (2016) and Krishnan et al. (2011). This may be as a result of the fact that the importance of the legal expert is yet to be explored in the Nigerian context. Similarly, Table 5.6 shows that some firms did not have women representation in their ACs. The result is lower than what was reported in previous studies (Carte, Simkins & Simpson, 2010; Ittonen et al., 2010). The amount of ACSO ranged from 12,768 units to 30,000, 000 units with an average value of 3,780 000 units. The figure was different from that of Kibiya et al. (2016b). This may be as a result of the fact that the period covered by this present study was different from the period covered by Kibiya et al. (2016b). As, Kibiya et al. (2016b) covered the period of 2010 to 2014. The ACT scored an average of 5 with a minimum and a maximum of 3 years and 8 years, respectively. Comparatively, the figure was similar to the results of Baxter (2007) and Cohen et al. (2014). Table 5.6 also describes that there were some firms that their ACs were

chaired by directors whilst the majority of the committees were chaired by the shareholders' representatives. This is one of the uniqueness characteristics of the AC composition in Nigeria as stipulated by the CAMA (2004) that members of the AC should be made up of equal representation of directors and shareholders.

The mean value of one of the mediators, AUF, was ₦27 million (equivalent to 76,000 USD). This indicates that, on average, the listed companies in Nigeria pay up ₦27 million for auditing services. Table 5.6 also reveals a minimum and a maximum of the AUF to the tune of ₦2 million and ₦156 million (equivalent to 5555 and 433,333 USD), respectively. The wide disparity between the minimum and maximum was due to the fact that the companies that were audited by the Big 4 auditors in Nigeria paid excessively high audit prices compared to those audited by Non-Big 4 auditors. Comparatively, the mean value was lower than that of Lai et al. (2017) and Kim et al. (2016) due to differences in the market operation.

Considering the control variables, the BI had an average of 0.715, and a minimum (0.060) and a maximum (0.923), respectively. The BE had a mean value of 50% with a minimum (25%) and a maximum (75%), respectively. The FS scored a mean of ₦16.3 billion, and a minimum and a maximum of ₦1.15 billion and ₦134 billion, respectively. The LEV had an average of 0.011 whilst some firms reported no leverage and others scored 0.072. The AGE marked an average of 24 years with a minimum and maximum of 4 to 42 years, respectively. The SGROWTH had a mean value of 0.270, and a minimum and maximum of -5.256 and 7.508, respectively. The next section provides the explanation of the corrections of the regression variables.

This may also provide a signal that the ACC could influence the DA, which was expected to be validated with regression. The control variables, BE and LEV, were negatively correlated at the 10% level of significance. This may also have been preliminary evidence that these control variables, BE and LEV, would have negative associations with the DA. The Firm size (FS), Firm age (FAGE), and sales growth (SGROWTH) had negative correlations with the DA. However, these correlations were not significant, but the negative coefficient provided an initial justification of the direction of their relationship in the estimation model.

Considering the first mediator, AUF, it was revealed that there was a negative correlation with the DA which was significant at 5%. This signified that the AUF would possibly have a negative influence in the regression model. The second mediator, Big 4 auditor, was found to have a positive but insignificant correlation. This may suggest that Big 4 auditors might not be active in constraining the DA in the estimation model.

5.4 Multivariate Analysis: Mediating Effect of Audit Quality on the Relationship between AC Characteristics and Discretionary Accruals

This section provides a statistical inference for the variables of the study that were tested to examine the mediating effect of the audit quality (AUF and BIG 4) on the relationships between the audit committee characteristics and the FRQ. The FRQ was proxied by EM measurement using discretionary accruals (DA). In order to achieve this objective, two approaches of testing the mediation effect under multiple regressions were employed. These included the causal steps developed by Baron and Kenny (1986) and the Sobel Test. The study started with the causal steps to

determine whether the conditions of the mediation were met before applying the Sobel Test. The causal steps elucidate a sequence of relationships that serve as conditions to prove a mediated effect. These include: (a) the outcome variable Y must be significantly correlated with the predictor variable X, (b) the mediating variable M must be significantly correlated with the predictor variable X, (c) the outcome variable Y must be significantly correlated with the mediating variable M, and (d) the impact of the independent variable X (β) on the outcome variable Y should be less in absolute terms compared to the impact produced in model (a) (Baron & Kenny, 1986; Hayes, 2009). The next sections present the sequences of the regressions in a descending order as proposed by Baron and Kenny (1986).

5.4.1 Regression Results and Discussion on the Relationship Between AC Characteristics and Discretionary Accruals

This section tests the first segment of objective one of the thesis which was to determine the relationships between the AC characteristics and the FRQ of the listed companies in Nigeria. The section also tests the hypotheses, one to nine, (H_1 - H_9) to examine the first condition of the mediation effect. In testing these hypotheses, the absolute discretionary accruals using Kothari et al. (2005) were adopted. For the purpose of the interpretations, the indicators, such as the coefficient (β), robust standard error, t-values, and p-values were generated and presented.

Table 5.7 presents the regression results of model one (A) of the relationships between the AC characteristics and the discretionary accruals (DA). From the regression results, it was found that the audit committee size (ACS) had a negative relationship with the DA. This was observed from the regression coefficient of -

0.234 and p-value of 0.007, which were significant at 1%. This implies a larger number AC members is better to curtail the practices of earnings management in the form of the DA. As such, lower DA indicate better FRQ. The results support hypothesis one (H_1) of this current study that presumed that, the ACS has a positive relationship with the FRQ. This supports the resource dependence theory which suggests that the AC size is considered to be highly resourceful, thus improving the FRQ as a result of the diverse skills, expertise, and experiences they share amongst themselves (Dhaliwal et al., 2010; Hillman et al., 2000). This is consistent with the findings of previous studies which established that a larger AC size is more effective in monitoring management and thus their effective monitoring makes them more effective in enhancing the FRQ (Dhaliwal et al., 2010; Hillman et al., 2000; Leong et al., 2015; Miko, 2016; Setiany et al., 2017). Moreover, previous studies in Nigeria have documented similar findings (Abata & Migiro, 2016; Chi-Chi & Friady, 2016; Fodio et al., 2013).

The next AC characteristic used in the study was the audit committee independence (ACI). It is revealed from Table 5.7 that the ACI had a negative association with the DA. This was evident from the regression coefficient of (-0.220) and p-value of (0.715). Though, the coefficient was negative, it was statistically not significant at all levels. The result does not support hypothesis two (H_2) of this study which assumed that the ACI has a positive relationship with the FRQ. The probable explanation for this result may be for the following reason. A possible explanation for this could be attributed to the connectedness of the independent directors with the CEOs. This is because CEOs usually appoint director because of their social networks (Bruynseels

et al., 2015). It is likely that the independent directors in the AC may have connections with the CEOs. This may impair their independence and thus, reduce their monitoring ability in the financial reporting process. This is because CEOs connection with the AC reduced the effectiveness of the committee in Nigerian firms (Sanda, Garba & Mikailu, 2011).

Table 5.7

Model One (A) Pool Regression of the Relationship between the AC Characteristics and FRQ (Discretionary Accruals)

Variable	Coefficient	Robust Std. Err.	T-Value	P-Value
ACS	-0.234	0.087	-2.700***	0.007
ACI	-0.220	0.604	-0.360	0.715
ACM	-0.227	0.086	-2.640***	0.009
ACFAE	-1.307	0.410	-3.190***	0.002
ACLE	1.514	0.605	2.500**	0.013
FACM	0.540	0.113	4.800***	0.000
ACSO	-0.028	0.062	-0.44	0.657
ACT	0.022	0.033	0.660	0.508
ACC	0.226	0.148	1.530	0.127
BI	-0.430	0.465	-0.930	0.355
BE	-0.270	0.382	-0.710	0.480
FS	0.103	0.045	2.280**	0.023
LEV	-8.508	2.917	-2.920***	0.004
FAGE	-0.004	0.004	-0.930	0.352
SGROWTH	-0.012	0.020	-0.620	0.534
Cons	2.969	0.773	3.840***	0.000
R2		0.150		
F-Stat		4.990		
P.Value		0.000		
Link Test(Hatsq)		0.630		
Hetttest (Chi2)		10.420		
P-Value		0.001		
P.value		0.000		
HM Test (Chi2)		12.190		
P.value		0.591		

Note: DA= discretionary accruals, ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age and SGROWTH = sales growth, * p<0.01, ** p<0.05, *** p<0.001. = significant at 1%, 5% and 10% respectively

Previous studies have documented similar findings on this relation (Cohen et al., 2014; Kusnadi et al., 2016). Similarly, in Nigeria, Fodio et al. (2013) and Moses et al. (2016) documented a negative insignificant association between board independence and DA.

Another AC attribute employed in this study was the audit committee meetings (ACMs). Table 5.7 shows that the ACMs was inversely and significantly related to the DA. This was inferred from the coefficient of (-0.227) and p-value of (0.009) which were significant at 1%. This means that the more frequent the AC meets, the more scrutiny and discussions they have on the financial reporting issues and thus, positively influence the FRQ. This supports the third hypothesis (H₃) which presumed that the ACMs have a positive relationship with the FRQ. The finding is consistent with the agency theory which suggests that members of the AC are keen on meaningful and substantive meetings which will, in turn, lead to better monitoring of and enhance the financial reporting process. This validates the findings of prior studies which established that more frequent AC meetings reduces the DA and enhances the FRQ (Abbott et al., 2004; Habbash & Alagla, 2015; Hamdan et al., 2013; Kolsi & Grassa, 2017). The results also support the findings of Akhor and Oseghale (2017) and Ormin et al. (2015) who revealed a positive significant relationship between the ACMs and the FRQ of the listed companies in Nigeria.

Audit committee financial accounting experts (ACFAEs) was the next AC characteristic used in this study. It was observed from Table 5.7 that the ACFAEs had a negative significant relationship with the DA. This was revealed from Table 5.7 which reflects a regression coefficient of (-1.307) with a p-value of (0.002). This

implies that members of the AC with financial accounting knowledge are more likely to prevent earnings manipulation in Nigeria. This confirms the evidence that the presence of AC members with financial accounting know-how in the AC provides a crucial role in enhancing monitoring and oversight functions and thus, improves the FRQ. The findings confirm the resource dependence theory on the AC expertise as the resource provider; where, the resources are recognised as know-how, skills, and experiences. The result also supports hypothesis four (H₄) of the study which assumed that the ACFAEs have a positive relationship with the FRQ. This is consistent with the findings of Badolato et al. (2014), Fuller (2015), Juhmani (2017), Levitan et al. (2016) and Lisic et al. (2017) who revealed that the audit AC accounting experts have a negative significant impact on the DA. In Nigeria, a similar finding was documented by Bala and Kumai (2015), Umar and Hassan (2017) who showed that there was a negative significant relationship between the AC expertise and the DA.

Next was the audit committee legal experts (ACLEs). Contrary to the research expectation, it was observed that the ACLEs were found to have a positive significant association with the DA. This suggests that the existence of a legal expert on the AC does not prevent managers from practicing earnings management in the form of DA. This has provided a justification for the rejection of hypothesis five (H₅) of this study which presumed that the ACLEs have a positive relationship with the FRQ. The possible explanation for this could be as a result of the fact that legal directors do not have the specific training relating to financial reporting like financial experts (Krishnan et al., 2011). Thus, it is evident that the majority of the AC legal

experts in Nigeria do not have accounting expertise or experience. Thus, their inexperience of accounting may make them to be ineffective in curtailing financial accounting manipulation in form of DA.

Table 5.7 also shows that the FACMs had a positive relationship with the DA. This was deduced from the regression coefficient of (0.540) and p-value of (0.000), indicating a 1% level of significance. This infers that the presence of at least one female director in the AC may not reduce the likelihood of managers' unscrupulous behaviours towards earnings which has an adverse effect on the FRQ. This has provided a basis for rejecting hypothesis six (H6) of this current study which established that the FACMs had a positive relationship with the FRQ. A possible explanation for this could be that, consistent with the liberal feminist theory, women are deprived compared to men as a result of the obvious discrimination and systemic influence that keep them away from receiving vital resources, such as business education and experience (Fischer et al.,1993). To corroborate this, it was evident from the sample firms that, only 54% of the compositions of the ACs in Nigeria had female directors and from those, the majority of them had only one female representative. The results also support the findings of Martinez et al. (2016) who suggested that the proportion of female independent directors on the board does not enhance the FRQ since they are unlikely to decrease the omission of information qualifications and error-non-compliance. In addition, a similar result was documented by Akhor and Oseghale (2017), Bala and Kumai (2015) who revealed a positive significant relationship between a female director on the board and the DA of the listed companies in Nigeria.

The Audit committee stock ownership (ACSO) was another AC variable used in this present study. It was found that the ACSO had a negative relationship with the DA. Though the result was negative, it was statistically not significant. This suggests that the number of shares possessed by the AC members may not substantially decrease the DA. This contradicts hypothesis seven (H₇) of the thesis which postulates that the ACSO has a positive significant relationship with the FRQ. The possible reason for this is that, consistent with Hamdan et al. (2013), the direct financial interests of the members of the AC may deprive them of the integrity of preventing the managers' alterations of the financial reports. Another possible explanation for this is that, considering the numbers of shares that some of the members of the AC possess when compared with the overall outstanding equities of the firm, the proportion is expected to be very negligible. This evidence was obtained in the additional analysis when the ACSO was re-measured using percentage of AC shares (units of AC shares divided total number of shares outstanding to the firm). This may divest in them the power to make a meaningful contribution, particularly in preventing opportunistic managers' behaviours which is the key factor that motivates management to make deceptive financial reports.

Another type of AC characteristic is the audit committee tenure (ACT). The results reveal that the ACT was positively and insignificantly related to the discretionary accruals. Contrary to the study's expectation, as hypothesised, the ACT had a positive relationship with the FRQ. The positive insignificant relationship with the DA implies that longer-tenured directors in the AC do not reduce earnings management and thus, may not guarantee better FRQ.

This might be as a result of the fact that the average AC tenure of eight years as evidence from the descriptive statistics could be too long. Because an exceptionally prolonged board service may possibly compromise independence since the oldest directors might be more probable to befriend management and thus, become less critical of the quality of its financial statements (Beasley, 1996; Vafeas, 2003). This is consistent with prior studies that documented a positive relationship between the length of the AC tenure to the possibility of dodging negative earnings surprises (Sun et al., 2011; Vafeas, 2003; 2005; Yermack, 2004).

The audit committee chair (ACC) was an additional AC attribute employed in this present study. In contrast to the research expectation, the ACC was found to have a positive but insignificant relationship with the DA. This implies that, when the chairmanship of the AC is saddled in the hands of the shareholders, it does not guarantee better FRQ. A potential explanation for this is that as evidenced from the descriptive statistics, 89% of the AC chairs in Nigerian firms were shareholders. This is because CAMA (2004) recommends that the AC shall consist of representatives from both shareholders and directors. Thus, the presence of shareholders in the AC may reduce their monitoring role in the decision-making process, since shareholders may be more induce to increase their value as a result of share price increase (Sharma & Kuang, 2014).

Considering the control variables, Table 5.7 shows that the BI was negatively but insignificantly associated with the DA. This suggests that the proportion of independent directors in the board may not constrain the managers from practicing earnings management in the listed companies in Nigeria. This is in line with the

finding of Gao and Huang (2016) and Nelson and Devi (2013). In the same vein, the BE was not significantly related to the DA having a regression coefficient of (-0.270) and p-value of (0.480). Though the relationship was negative, the finding does not support the resource dependence theory and agency theory which propose that a high BE is important to enhance the board's monitoring as it leads to high financial reporting quality (Pfeffer & Salancik, 2003).

The FS had a positive significant relationship with the DA at 5%. This implies that larger firms are more probable to manage earnings than smaller firms. The possible explanation for this is that, larger firms are under more pressures to meet or beat the analysts' expectations. The finding is in line with the results of Barton and Simko (2002), Chen et al. (2010), Kim, Liu and Rhee (2003) and Nelson and Devi (2013) who reported a positive relationship between the FS and the DA. In addition, the study examined whether high leveraged firms had more incentive to distort earnings to avoid debt covenant violations. Contrary to this prediction, the LEV was found to be negatively and significantly related to the DA. This means that highly leveraged firms have a propensity to reduce the DA. This is consistent with the findings of Jelinek (2007) and Zamri Rahman and Isa (2013) who showed that an increase in leverage decreases opportunistic earnings management since leverage requires debt recompense, thus lessening the cash available to managers for non-optimal outlays.

Sales growth (SGROWTH) was revealed to have a negative insignificant relationship with the DA. This implies that SGROWTH had no significant influence on the DA of the listed companies in Nigeria. The result is supported by the findings of Abbadi et al. (2016) and Sun et al. (2011). Whilst Chen et al. (2010) found a negative

significant relationship between SGROWTH and DA. Firm age (FAGE) was also shown to have a negative insignificant relationship with the DA. This implies that FAGE does not matter in preventing earnings manipulation. This is consistent with the findings of Leung, Srinidhi and Xie (2017) and Gao and Huang (2016) who found a negative insignificant relationship between FAGE and DA.

The comparison between the expected and the actual findings of the foregoing regression is presented in Table 5.8.

Table 5.8

The Summary of the Predicted and the Actual Results for on the Relationship between the AC Characteristics and FRQ (Discretionary Accruals)

HYPOTHESIS	E.Sign	A.Sign	Decision
H₁ : There is positive relationship between <i>AC Size</i> (ACS) and FRQ	-ve	-Sig.	Supported
H₂ : There is positive relationship between <i>AC Independence</i> (ACI) and FRQ	-ve	-Insig.	Not supported
H₃ : There is positive relationship between <i>AC Meetings</i> (ACM) and FRQ	-ve	-Sig.	Supported
H₄ : There is positive relationship between <i>AC Financial Accounting Expertise</i> (ACFAE) and FRQ	-ve	-Sig.	Supported
H₅ : There is positive relationship between <i>AC Legal Expert</i> (ACLE) and FRQ	-ve	+Sig	Not supported
H₆ : There is positive relationship between <i>Female AC</i> (FACM) and FRQ	-ve	+Sig	Not supported
H₇ : There is positive relationship between <i>AC Stock Ownership</i> (ACSO) and FRQ	-ve	-Insig.	Not supported
H₈ : There is positive relationship between <i>AC Tenure</i> (ACT) and FRQ	-ve	+Insig.	Not supported
H₉ : There is positive relationship between <i>AC Chair</i> (ACC) and FRQ	-ve	+Insig.	Not supported

Notes: E.Sign = expected sign, A.Sign = actual sign, +ve = positive, -ve = negative, +veSig = positive significant, -veSig = negative significant, +veInsig positive insignificant, -veInSig negative insignificant supported. -veSig is supported otherwise and not supported.

In summary, from the nine variables tested in the study, three variables supported the predicted hypotheses whilst the remaining six did not. In particular, from the

remaining six, four variables were insignificant whilst the remaining two revealed the opposite sign with the research anticipations.

5.4.2 Regression Result and Discussion on the Relationship between AC Characteristics and Audit Quality (using audit fees)

This section tests the first segment of objective two of the thesis which was to examine the relationships between the AC characteristics and the audit quality of the listed companies in Nigeria. The section also tests the hypotheses (H_{10a} - H_{10i}) to determine the second condition of the mediation. In testing the hypotheses, the natural logarithm of the audit fee (AUF) was used as a proxy for audit quality. For interpretation purposes, indicators, such as the coefficient (β), robust standard error, t-values, and p-values were generated and presented.

Table 5.9 presents the regression results of model 1 (B) regression one which explains the relationships between the AC characteristics and the AUF. It was observed from Table 5.9 that the ACS was revealed to have a positive significant relationship with the AUF. The results have provided a coefficient of (0.392) and a p-value of (0.000), indicating a 1% significance level. The insinuation of this finding is that, a larger AC has higher chance of increasing the AUF and thus, enhancing the audit quality of the listed companies in Nigeria. Consequently, the results support H_{10a} which assumed that the ACS has a positive relationship with the audit quality of the listed companies in Nigeria. It is also consistent with the resource dependence theory and the demand hypothesis of audit quality which appeals for a higher AUF in anticipation of greater audit efforts. This confirms the findings of previous studies (Kim et al., 2016; Krishnan & Visvanathan, 2009; Marini et al., 2016; Zaman et al.,

2016) which documented that a larger ACS is allied to a higher increase in audit fees, of which the premise is that an accumulation of one member to an AC brings about an extra increase in the AUF in their struggle to enhance the external monitoring. In Nigeria, similar results were documented by Urhoghide and Izedonmi (2015) who showed that larger board size was related to higher audit fees.

Table 5.9 also reveals that the ACI was found to have a positive but insignificant relationship with the AUF. This was deduced from the coefficient and p-value of (0.350 and 0.373), respectively. Though the result was positive, it did not support H_{10b} . This implies that the proportion of the non-executive directors on the AC may not have a substantial influence on the audit fees of the listed companies in Nigeria. The explanation for this could be similar to the possible justification given on the result of the relationship between ACI and DA, which revealed a negative insignificant association. Thus, independent directors in AC that have networking with the CEOs may not be critical about financial reporting issues. This is because their relationship with the CEO may compromise their independence. The result is consistent with the findings of Vafeas and Waagelein (2007) who documented a positive insignificant relationship between the ACI and the AUF. In addition, a similar result was documented by Abdulmalik and Che-Ahmad (2016b), and Urhoghide and Izedonmi (2015) who revealed that a larger proportion of the board and AC independence was positive but insignificantly related to the audit fees in Nigeria.

Table 5.9

Model One (B) the Relationship between AC and Characteristics Audit Quality (using Audit fees)

Variable	Coef.	Robust Std. Err.	T-Values	P-Value
ACS	0.392	0.053	7.430***	0.000
ACI	0.350	0.392	0.890	0.373
ACM	0.018	0.071	0.260	0.794
ACFAE	0.532	0.276	1.930*	0.055
ACLE	0.789	0.389	2.030**	0.043
FACM	-0.163	0.077	-2.120**	0.035
ACSO	0.043	0.012	3.560***	0.000
ACT	0.002	0.024	0.070	0.948
ACC	-0.651	0.165	-3.940***	0.000
BI	0.760	0.350	2.170**	0.030
BE	1.011	0.266	3.810***	0.000
FE	0.372	0.027	13.610***	0.000
LEV	0.013	0.051	0.260	0.792
FAGE	0.005	0.003	1.720*	0.087
SGROWTH	0.036	0.015	2.460**	0.014
Cons	0.362	0.489	0.740	0.460
R-squared	0.603			
Linktest(F-Stats)	333.25			
(P-Value)	0.000			
(hatsq)	0.365			
Hetest (P-Value)	0.009			
Hausman Test	0.118			
LM Test	0.050			
Observations	440			

Note: AUF= Audit fees, ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age and SGROWTH = sales growth, * p<0.01, ** p<0.05, *** p<0.001 = significant at 1%, 5% and 10% respectively

Table 5.9 also reveals that the ACMs have a coefficient and p-value of (0.018 and 0.794), respectively. This recommends that the ACMs have a positive but statistically insignificant relationship with the AUF. It implies that meetings up to four times a year may assure a higher AUF. Thus, the result is not consistent with the study's predicted hypothesis, H_{10c} , which assumed that the ACMs have a positive

relationship with the audit quality. A possible explanation for this result could be that, as evidenced from the descriptive statistics some companies meet up to five times a year. Thus, more recurrent meetings may lead to fatigue and tiredness, thus creating room for accommodating irrelevant discussions that are outside the scope and the overall objectives of the firms. This may cause the succeeding significant discussions to be ineffective in the long run. This was evident from the descriptive statistics which revealed that some companies met more frequently than the global recommendation of meeting of up to four times a year. The result is in line with the findings of prior studies (Abbott et al., 2003; Carcello et al., 2002) which revealed a positive insignificant relationship between the ACs and the AUF. However, a similar result was documented by Salawu, Okpanachi, Yahaya and Dikki (2017), and Urhoghide and Izedonmi (2015) who showed that board meeting frequency was positively related to higher audit fees in Nigeria.

The audit committee financial accounting experts (ACFAEs) was positively and significantly related to the AUF at a 10% level of significance. This means that an increase of one member with a professional accounting certificate on the AC will cause an additional increase in audit fees to demand greater external monitoring. This is consistent with H10_a which posited that the ACFAEs have a positive relationship with the audit quality of the listed companies in Nigeria. The findings were also in line with the institutional theory which assumes that the AC that has members with specific expertise is associated with higher financial reporting quality. The result is consistent with the findings of Abbott et al. (2003), Carcello and Neal (2003), Cohen et al. (2014), Kim et al. (2016), and Lee and Mande (2005) who showed that AC

accounting experts request more audit assurance, and thus pay high audit fees. In addition, a similar result was reported by Salawu et al. (2017) and Urhoghide and Izedonmi (2015) who disclosed that a larger proportion of the board and AC expertise were associated to higher audit fees in Nigeria.

Interestingly, the model also displayed evidence of a positive significant association between the ACLEs and the AUF at a 5% level of significance. This implies that having a higher percentage of legal experts in the AC enhances the audit assurance through the payment of a high audit price. The finding supports H_{10e} which presumed that the ACLEs have a positive significant relationship with the audit quality of the listed companies in Nigeria. The finding is also consistent with the resource dependence theory which shows that diverse skills and expertise on the AC can improve the committees' ability to examine whether the accounting procedures correctly reflect the basic financial substance of the business activities, which will advance to a higher FRQ. This is not astonishing as legal experts in the AC are exhibited to be monitors rather than ordinary signals to the financial reporting (Krishnan et al., 2011). Although, most of the AC legal experts in Nigeria do not have financial expertise as observed from their profile during the data collection. But their legal know-how prompt other AC members to be more vigilant about the legal risks that are linked to erroneous or poor aggressive financial reports (Krishnan et al., 2011). Consequently, they hire better auditors pay high audit prices which in returns enhanced FRQ. Thus, the finding supports H_{10e}, which predicted that the ACLEs have a positive relationship with the audit quality. Hence, it is consistent with the complementary hypothesis of audit of paying a high AUF for greater audit

assurance. More so, Cohen et al. (2014) showed that AC members with specific expertise are active monitoring devices and thus, enhance FRQ.

Table 5.9 also shows that the FACMs had a negative significant association with the AUF at a 5% significance level. This was observed from the coefficient of (-0.163) and p-value of (0.035). This infers that the presence of female directors in the AC decreases the likelihood of paying a high audit price. Surprisingly, the result contradicts H10_f which presumed that the FACMs have a positive relationship with the audit quality. A potential clarification for this could be that female directors are more conservative throughout board consultations than the men (Gold et al., 2009). This could possibly make them purchase less audit services from the external auditors. In addition, at times, female directors have to exhibit superfluous skills in order to gain managerial positions and be on corporate boards (Gold et al., 2009). This may stimulate them to reduce their desire for the assurance expected from the external auditors and, consequently, pay fewer audit fees (Ittonen et al., 2010). The result is in line with the substitutional hypothesis of audit quality which suggests that greater internal control is accredited to lower audit processes and thus, to lower audit fees. This also validates the findings of Ittonen et al. (2010) and Xiang et al. (2015) who found a negative significant association between the FACMs and the AUF. In Nigeria, Abdulmalik and Che-Ahmad (2016b) revealed that board diversity was positively related to the audit fees.

Table 5.9 also provides evidence of a positive relationship between the ACSO and the AUF. This was appended by a beta coefficient and p-value of 0.042 and 0.000, respectively. This implies that one unit increase of the ACSO will proportionately

increase the AUF. Thus, the finding is in line with H_{10g} which predicted that the ACSO has a positive significant relationship with the audit quality of the listed companies in Nigeria. This is not surprising because the more units of shares directors possess, the stronger their passion is to work to maximise the worth of the company's stock (Hermalin & Weisbach, 1991). The result is consistent with the prior expectation that the ACSO has a positive relationship with the audit quality of the listed companies in Nigeria. A possible explanation for this might be that shareholders in the AC demand for greater audit effort from the external auditors by paying high audit fees. This will supplement their monitoring ability on financial reporting process. Although it was earlier revealed that the low percentage of AC shares in Nigeria constrained them to make significant contribution in decreasing DA. However, their willingness to incur higher audit fees may reduce EM and enhances FRQ. This validates the agency theory of the AC shares' alignment which suggests that the AC shares align the curiosity of the members of the AC with the interests of the other shareholders (Vafeas, 2005; Yermack, 2004). The result is also in line with the finding of Abdulmalik and Che-Ahmad (2016b) who showed that director ownership was positively related to the audit fees of the listed companies in Nigeria.

In addition, the audit committee tenure (ACT) was established to have a positive insignificant association with the AUF. This indicates that the length of the directors' tenure does not influence the AUF. Thus, the finding contradicts H_{10h} which assumed that the ACT has a positive significant relationship with the audit quality. A probable explanation for this could be that, considering the descriptive statistics, it was found

that there were some AC members that had served up to eight years. This period may be considered too prolonged as long-tenured directors may have a sociable connection with the management, which could be developed over time (Vafaes, 2003). Furthermore, the management may participate in the nomination procedure of the non-executive directors; thus, the non-executive directors who have strong personal connections with the management are more probable to be re-elected and last for a long term. Hence, their contribution could be compromised by their cordial relationship with the managers (Vafaes, 2003). Consequently, it is probable that the positive influence of long-tenured directors on the monitoring effectiveness is compensated by its negative effect thereby making them become ineffective. Consistently, prior studies found that the positive effect of the directors' long tenure on monitoring the efficiency outweighs the negative influence of the long tenure of the directors on monitoring effectiveness, particularly in supervising financial reporting process (Chan et al., 2013; Vafeas, 2003).

Table 5.9 also shows that the ACC had a negative significant relationship with the AUF. This was inferred from the beta coefficient of -0.651 and p-value of 0.000, respectively. This suggests that when the AC is chaired by a stockholder, the audit price decreases. The result contradicts the research expectation as hypothesised in H_{10i} that the ACC has a positive relationship with the audit quality of the listed companies in Nigeria. The possible reason for this is that, it was evident from the descriptive statistics that almost 89% of the AC were chaired by shareholders, and it was further found from the result on the relationship between the ACC and the DA that the existence of shareholders as AC chairs had no meaningful contribution to

the committees' effectiveness on monitoring financial frauds. This is because their existence in the AC may reduce their monitoring role in the decision-making process. Because shareholders may be more induced to increase their value as a result of share price increase (Sharma & Kuang, 2014). This might enable them to acquire less audit services and are involved more in earnings manipulations.

Regarding the control variables, it was found that the BI had a positive significant relationship with the AUF with a beta coefficient of 0.760 and p-value of 0.030, respectively. This suggests that the higher proportion of independent directors in the AC demand greater audit assurance in an exchange for payment of a high AUF. This is in line with the study expectations and also supports the findings of Abbott (2003) and Carcello (2002). Moreover, Urhoghide and Izedonmi (2015) revealed that a larger proportion of AC independence was positively related to audit fees in Nigeria. The result also shows that the BE has a positive significant relationship with the AUF with a beta coefficient and a p-value of (1.011 and 0.000), respectively. This confirms the notion that board members with financial expertise will be more willing to understand the audit risks and litigation, and thus pay a higher AUF in their quest for greater audit assurance. This is consistent with the findings of Krishnan and Visvanathan (2009) and Vafeas and Waagelein (2007). More so, in Nigeria, Urhoghide and Izedonmi (2015) documented a positive significant relationship between the BE and the AUF.

Moreover, firm size (FS) was revealed to have a positive relationship with the AUF at a 1% significance level. This is in line with the belief that larger firms are connected to higher FRQ since they are more closely monitored in the market thus,

they will be more willing to hire better auditors for greater audit assurance. The finding is line with the prior studies (Chan et al., 2013; Chen & Krishnan, 2016; Goodwin-Stewart & Kent, 2006). In Nigeria, Abdul Malik and Che-Ahmad (2016b) and Urhoghide et al. (2015) revealed that the FS had a positive significant relationship with the AUF. Table 5.9 also revealed that the LEV was found to have a positive insignificant association with the AUF. This implies that a firm's financial leverage had no influence on the AUF of the listed companies in Nigeria.

Firm age (FAGE) was shown to have a positive significant relation with the AUF. This indicates that older firms pay a higher AUF. This is consistent with the previous studies which found a positive significant relationship between the FAGE and the AUF. The SGROWTH was revealed to have a positive significant relationship with the AUF. This means that growing firms demand exceptional audit efforts by paying higher audit fees. This is in line with the findings of Chen and Krishnan (2016), Ben Ali and Lesage (2013), and Vafeas and Waegelien (2007) who documented a positive significant relationship between the SGROWTH and the AUF. In addition, Asien (2014) found that the FAGE was positively and significantly related to the AUF of the listed firms in Nigeria.

The comparison between the expected and the actual findings of the foregoing regression is presented in Table 5.10. From the nine variables tested in this model, four variables supported the predicted hypotheses whilst the remaining four did not. In particular, from the remaining four, three variables were insignificant whilst only one revealed the opposite sign with the research anticipations.

Table 5.10

The Summary of the Predicted and the Actual Results for on the Relationship between the AC Characteristics and Audit Fees

HYPOTHESIS	E.Sign	A.Sign	Decision
H_{10a} : There is positive relationship between <i>AC Size</i> (ACS) and AUQ	+	+sig.	Supported
H_{10b} : There is positive relationship between <i>AC Independence</i> (ACI) and AQ	+	+insig.	Not supported
H_{10c} : There is positive relationship between <i>AC Meetings</i> (ACM) and AUQ	+	+insig.	Not Supported
H_{10d} : There is positive relationship between <i>AC Financial Accounting Expertise</i> (ACFAE) and AUQ	+	+sig.	Supported
H_{10e} : There is positive relationship between <i>AC Legal Expert</i> (ACLE) and AUQ	+	+sig.	Supported
H_{10f} : There is positive relationship between <i>Female AC</i> (FACM) and AUQ	+	-sig.	Not Supported
H_{10g} : There is positive relationship between <i>AC Stock Ownership</i> (ACSO) and AUQ	+	+sig.	Supported
H_{10h} : There is positive relationship between <i>AC Tenure</i> (ACT) and AUQ	+	+insig.	Not Supported
H_{10i} : There is positive relationship between <i>AC Chair</i> (ACC) and AUQ	+	-sig.	Not Supported

Notes: E.Sign = expected sign, A.Sign = actual sign, +ve = positive, -ve = negative, +vesig = positive significant, -vesig = negative significant, +veinsig positive insignificant, -veinsig negative insignificant supported. -vesig is supported otherwise and not supported.

5.4.3 Regression Result and Discussion on the Relationship between AC Characteristics and Audit Quality (using BIG4 auditors)

This section examines the second segment of objective two of the thesis which was to determine the relationship between the AC characteristics and the audit quality of the listed companies in Nigeria. The section also tests the hypotheses (H_{10a}-H_{10i}) to examine the second condition of the mediation. In testing the hypotheses, the BIG 4 auditor was used as an additional measurement for the audit quality. In the desire to make the interpretations, indicators, such as coefficient (β), robust standard error, t-values and p-values, were generated and presented. Table 5.11 presents the logit results of model 1 (B) regression two of the relationships between the AC characteristics and the BIG 4 auditors.

Table 5.11 displays that the ACS was revealed to have a negative relationship with the BIG 4 auditors. This was shown by a coefficient of (-0.223) and p-value of (0.179), indicating an insignificant relationship at all levels. This suggests that a larger ACS may not engage BIG 4 auditors in the selection of the auditor brand name in the listed companies in Nigeria. Thus, the result is contrary to the prior expectation which was hypothesised (H_{10a}) that, the ACS has a positive relationship with the BIG 4 auditors of the listed companies in Nigeria. The result also contradicts the finding of ACS and AUF which revealed a positive significant relationship. A possible explanation for this could be that AUF is a function of Big 4 and non-Big 4 auditors (André, Broye, Pong & Schatt, 2011). Thus, listed companies in Nigeria were audited by Big 4 and non-Big 4 auditors and each of them is expected to be paid for their services in form of AUF. This may likely alter the direction of relationships between the AC attributes and both proxies of audit quality (AUF and Big 4). Another possible explanation could be due to the fact that a smaller ACS could act more effectively than a bigger ACS since it is more likely for the smaller AC to make substantial decisions without wasting time. In addition, a large ACS may be too tough to manage because too large a number of AC members may result in slower decision-making progress. The result is in line with the findings of the agency theory proponents who argue that smaller boards are more effective monitoring mechanisms, and more organised and decisive (Jensen, 1993; Vafeas, 2005). However, Fodio et al. (2013) showed that a smaller board was better in mitigating the EM of the listed insurance firms in Nigeria.

Table 5.11

Model 1 (B) Pool Logit of the Relationship between the AC Characteristics and the Audit Quality (using BIG4)

Variable	Coef.	Robust Sd. E.	T-Value	P-Value
ACS	-0.223	0.166	-1.340	0.179
ACI	2.189	1.207	1.810**	0.070
ACM	-0.656	0.209	-3.130***	0.002
ACFAE	2.420	0.872	2.780***	0.006
ACLE	2.104	1.281	1.640*	0.100
FACM	0.935	0.248	3.770***	0.000
ACSO	0.309	0.105	2.940***	0.003
ACT	-0.246	0.081	-3.030***	0.002
ACC	-0.719	0.392	-1.830*	0.067
BI	1.775	1.176	1.510	0.131
BE	2.153	0.834	2.580***	0.010
FS	0.374	0.090	4.150***	0.000
LEV	-7.035	6.437	-1.090	0.274
FAGE	0.004	0.008	0.430	0.671
SGROWTH	-0.027	0.041	-0.650	0.514
Cons	-4.784	1.608	-2.980***	0.003
Pseudo R2	0.153			
Goodness-of-Fit Test(HL chi2)	2.42			
(P-Value)	0.9655			
Model Spec. Test (correctly specified)	70%			
LM Test	0.0500			
Observations	440			

Note: BIG4 = Big4 Auditor auditors (KPMG, Price Waterhouse Coopers, Ernst & Young and Deloitte), ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age and SGROWTH = sales growth, * p<0.01, ** p<0.05, *** p<0.001 = significant at 10%, 5% and 1% respectively

Further, some prior studies conducted have revealed that board size is inversely related to financial performance (Yermack, 1996) this can be extended to the ACS. This is consistent with the findings of Leong et al. (2015), Lin et al. (2006), and Vafeas (2005) who found that smaller AC sizes had the capacity to make better decisions and have better coordination because their relative sizes reduced the meaningless discussions characterised by larger boards.

The next variable was the audit committee independence (ACI). It was observed from Table 5.11 that, the ACI had a positive significant relationship with the BIG 4 firms. This was revealed from the regression coefficient and p-value of 2.189 and 0.070, respectively. This implies that a larger proportion of independent directors on the AC increases the likelihood of hiring BIG 4 auditors. This is in line with the research prediction as hypothesised (H_{10b}) that, the ACI has a positive relationship with the audit quality. The result contradicts the finding of the influence of ACI on AUF which revealed a positive insignificant relationship. However, a possible explanation for this variation may be that AUF is paid to both Big 4 and non-Big 4 auditors (André, Broye, Pong & Schatt, 2011). This might affect the nature of their relationships in the regression estimation. This explains the premise that autonomous directors on the AC perform a greater monitoring role since they are independent of the management. This makes them acquire high quality auditing services and be more intense towards decreasing the propensity for financial reporting frauds. The finding is in line with the agency theory which suggests that an independent AC may be more ready to disagree with managers on different issues (Abbott et al., 2003; Carcello & Neal, 2003). This makes them more vigilant on financial reporting issues. The result is consistent with the findings of previous studies (Beasley, 1996; Hudaib & Cooke, 2005; Ejeagbasi et al., 2015). The result also validates the findings of Akhalumeh et al. (2017) and Urhoghide and Izedonmi (2015) who revealed that a larger proportion of AC independence was associated to higher audit fees in Nigeria.

Contrary to the study's prediction, the audit committee meetings (ACMs) were also found to have a negative significant association with the BIG 4 auditors. Thus (H_{10c})

was not supported. This implies that a more ACM frequency decreases the probability of engaging the service of BIG 4 auditors. This supports the substitution effect hypothesis of audit quality which suggests an inverse relationship between the governance devices and the audit quality. A probable justification for this could be that an AC that meets recurrently can absolutely influence the audit coverage throughout the numerous steps of the audit. Based on the foregoing, there is a high likelihood that more frequent AC meetings may reduce the chance of financial frauds in a firm, and thus make them require less audit effort. This has been supported by previous studies (Abbott et al., 2004; Raghunandan, Read & Rama, 2001) which documented that regular AC meetings lessen the degree of financial restatements since such meetings with the internal auditor will keep them informed and conversant with the accounting and auditing issues.

Table 5.11 also reveals that the audit committee financial accounting experts (ACFAEs) had a positive significant relationship with the BIG 4 auditors. The regression coefficient and p-value of (2.420 and 0.007) depicted the degree of this relationship which was significant at 1%. This is consistent with the research expectation (H_{10d}) which hypothesised that the ACFAEs have a positive significant relationship with the audit quality (AUQ). This infers that members of the AC with financial accounting knowledge are extremely likely to acquire the services of BIG 4 auditors in the process of selecting the audit brand name. This supports the demand hypothesis of audit that is aligned to the agency theory which suggests that audit services are required to lessen agency conflicts rising from the interests of equity holders and managers. Therefore, AC members with financial know-how will engage

better auditors who will be more effective monitors of the managers' actions and thus, ensure that appropriate financial reports and disclosure exist. This is in line with the findings of Abbott et al. (2003), Carcello and Neal (2003) and Kim et al. (2016) who found that the AC accounting experts are significantly related to the likelihood of engaging high-quality auditors, such as the BIG4 auditors or industry specialist auditors. In Nigeria, Urhoghide and Izedonmi (2015) revealed that a larger proportion of board expertise is associated with higher audit fees in their demand for greater assurance.

Interestingly, it was observed that the audit committee legal experts (ACLEs) had a positive significant relation with the BIG 4 auditors. This implies that the members of the AC with legal backgrounds have the likelihood of employing BIG 4 auditors. The result supports (H_{10e}) which presumed that the ACLEs have a positive association with the BIG 4 auditors. The result is consistent with the institutional theory which proposes that the AC which has members with specific expertise is associated with higher financial reporting quality (Cohen et al., 2014). This is not surprising as members of the AC with legal backgrounds prepare AC members to be extra careful about legal risks that are concomitant to inaccurate or inadequate aggressive financial reporting. Their risk avoidance makes them engage the services of better auditors, such as the BIG 4 auditors, in order to acquire greater audit assurance. This corroborates the findings of Krishnan et al. (2011) who found that legal experts in the AC will possibly assist in ensuring better FRQ since the quality of the financial reporting can be connected to legal liability threats and their legal backgrounds require them to be more watchful of such threats.

Table 5.11 also shows that the female audit committee members (FACMs) had a positive significant relationship with the BIG 4 firms. This was accompanied by the beta coefficient of 0.935 and p-value of 0.000, respectively. This signifies that the presence of at least one female director on the AC increases the likelihood of prioritising the services of the BIG 4 auditors than the non-BIG 4 auditors in the listed companies in Nigeria. The finding is consistent with H_{10f} which presumed that the FACMs have a positive significant relationship with the audit quality of the listed companies in Nigeria. However, this result is contrary to the finding of FACM and AUF which showed a negative significant relationship. This might be as a result of that fact the two proxies of audit quality (AUF and Big 4) have different measurement. AUF is a continuous variable whilst Big 4 auditor is a dummy variable. More so, AUF can be determined by Big 4 and non-Big 4 auditors (André et al., 2011). This can influence the nature of their relationships in the regression model. This is as a result of the fact that, the FACMs demand greater audit efforts to safeguard the firms' reputational capital and hence, hire better auditors. This supports the notion that a diverse gender in the AC demands a higher audit quality in high risk circumstances. The result validates the social feminist theory which suggests that the innate difference between women and men does not infer that women are inferior to men since men and women may develop differently, but with equal effective qualities (Fischer et al., 1993). The result is consistent with the findings of Aldamen et al. (2016) Huang and Thiruvadi (2010), and Lai et al. (2017) who found that the FACMs demand high audit quality to obtain a greater audit assurance. In Nigeria, Dakata et al. (2016) showed that female AC members had the same functions as female directors in minimising the EM performed by the managers.

The next variable from the estimation was the audit committee stock ownership (ACSO). It was deduced that the ACSO had a positive significant relationship with the BIG 4 auditors at a 1% significance level. This implies that the unit of shares possessed by the AC members increases the likelihood of rendering services to the BIG 4 auditors. This supports the research expectation (H_{10g}), and is thus consistent with the complimentary hypothesis which suggests that the monitoring role provided by the ACSO makes them demand greater audit assurance through engaging better auditors. The result supports the finding of Kibiya et al. (2016b) who found that a large cumulative proportion of shares held by the AC enriches its monitoring function and enhances the FRQ in Nigeria.

Contrary to the expectation of this study, it was found that the audit committee tenure (ACT) had a negative significant relationship with the BIG 4 auditors. This implies that long-tenured directors are less likely to engage BIG 4 auditors. The result also contradicts the study expectation (H_{10h}). Possible elucidation for this could be that, work know-how can increase job performance since experience is the job-relevant knowledge that has grown over time. As such older directors can gain more familiarity with the firms' internal control systems and corporate operations over time. They can also develop interactions with the management to gain more valuable information for their decisions on financial matters. In addition, senior directors may have greater knowledge and proficiency, and promise to perform better. This makes them have less desire for the greater external monitoring provided by the BIG 4 auditors. This supports the substitution effect hypothesis which suggests that there is an inverse relationship between the governance devices and the audit quality. The

findings also validate the arguments of the agency theory proponents who suggests that long serving directors are more familiar with and knowledgeable about the company's practices and thus, become more effective in decreasing the probability of financial reporting fraud (Beasley, 1996; Hermalin & Weisbach, 1991; and Vafeas 2005).

The audit committee chair (ACC) had an inverse significant association with the BIG 4 auditors. This proposes that the chairmanship by the shareholders in the AC decreases the likelihood of employing the BIG 4 auditors. The result contradicts the prior expectation as hypothesised (H_{10i}) that, the ACC has a positive relationship with the BIG 4 auditors of the listed companies in Nigeria. The possible explanation for this result is that it is evident from the regression of the relationship between the ACC and the AUF that, when the AC is chaired by shareholders the AUF decreases. Thus, the negative relationship between the ACC and the BIG 4 auditors can be linked to the AUF since it is believed that firms that are audited by the BIG 4 auditors are more likely to pay high audit fees. *Ceteris paribus* firms spend more when they employ the BIG 4 auditors (Abbott et al., 2003; Hallak & Silva, 2012; Jacob & Desai, 2012). The result is in line with the findings of prior studies which have argued that the AC chair gains control over the AC, schedules the agendas, and controls the information flow (Sharma et al., 2009). Similarly, Qu (2018) showed that the AC chairs are mostly in charge of more official duties, including scheduling for the committees' meetings, setting the agenda, collaborating with the internal and external auditors, and assessing the performance of the ordinary members.

Considering the control variables, the BE and FS were found to have positive significant relationships with the BIG 4 auditors. This means that board members with financial expertise in the AC increase the tendency of engaging the service of the BIG 4 auditors in their demand for better audit assurance. In this vein, larger firms are more probable to hire a BIG 4 auditor. This is consistent with the findings of Hallak and Silva (2012) who found a positive significant relationship between the FS and BIG 4 auditors. More so, in Nigeria, Asien (2014) showed that larger firms were more likely to be audited by BIG 4 auditors. Whilst, the BI, LEV, FAGE, and SGROWTH were found to be insignificantly related to the BIG 4 auditors implying that the BI, LEV, FAGE, and SGROWTH did not influence the decision of selecting the auditor brand name of the listed firms in Nigeria.

The summary of the comparison between the expected and the actual findings of the foregoing regression is presented in Table 5.12. Generally, from the nine variables tested in this model, five variables were consistent with the predicted hypotheses whilst the remaining four were not. In particular, from the remaining four, one variable was insignificant whilst the remaining three disclosed the opposite sign with the research anticipations.

Table 5.12

Results of the Predicted and the Actual Hypothesis on the Relationship between the AC Characteristics and Audit Quality (using BIG4)

HYPOTHESIS (H _{10a} H _{10i})	E.Sign	A.Sign	Decision
H_{10a} : There is positive relationship between <i>AC Size</i> (ACS) and AUQ	+	-Insig.	Not supported
H_{10b} : There is positive relationship between <i>AC Independence</i> (ACI) and AQ	+	+sig.	Supported

Table 5.12 Continued

H_{10c} : There is positive relationship between <i>AC Meetings</i> . (ACM) and AUQ	+	-sig.	Not Supported
H_{10d} : There is positive relationship between <i>AC Financial Accounting Expertise</i> (ACFAE) and AUQ	+	+sig	Supported
H_{10e} : There is positive relationship between <i>AC Legal Expert</i> (ACLE) and AUQ	+	+sig	Supported
H_{10f} : There is positive relationship between <i>Female AC</i> (FACM) and AUQ	+	+sig.	Supported
H_{10g} : There is positive relationship between <i>AC Stock Ownership</i> (ACSO) and AUQ	+	+sig	Supported
H_{10h} : There is positive relationship between <i>AC Tenure</i> (ACT) and AUQ	+	-sig	Not Supported
H_{10i} : There is positive relationship between <i>A Chair</i> (ACC) and AUQ	+	-sig	Not Supported

Notes: E.Sign = expected sign, A.Sign = actual sign, +ve = positive, -ve = negative, +veSig = positive significant, -veSig = negative significant, +veInSig positive insignificant, -veInSig negative insignificant supported. -veSig is supported otherwise and not supported.

5.4.4 Regression Result and Discussion on the Relationship between the Audit Quality (using Audit fees) and the Discretionary Accruals

This section examines the first part of objective three of the study which was to determine the relationship between the audit quality and the FRQ of the listed companies in Nigeria. The section also tests the hypothesis (H₁₁) in order to examine the third condition of the mediation effect. In testing the hypotheses, the DA was used as the first measurement for the FRQ. For interpretation purposes, indicators, such as the coefficient (β), robust standard error, t-values and p-values were generated and presented.

Table 5.13 presents the results of model one (C) Regression one of the relationship between the audit quality (AUF) and the FRQ (DA). Table 5.13 shows that the AUF had a negative relationship with the DA. This was revealed by a coefficient of (-0.197) and p-value of (0.001). This indicates that the AUF was inversely and significantly related to the DA. It implies that an increase in the fees paid to the

external auditors decreases the DA and thus, improves the FRQ of the listed companies in Nigeria. This is in line with the study expectation as hypothesised (H₁₁) that, the audit quality has a positive relationship with the FRQ.

The findings also validated the agency theory which proposes that auditing financial reports is recognised as a means to decrease agency cost. This is not surprising as it is evident that a higher AUF is associated with greater audit efforts, lower litigation, greater assurance, and better reputation. It is based on the premise that auditing financial reports is recognised as a means to decrease agency cost and thus, a high audit fee is associated with a lower EM and higher FRQ.

Table 5.13
Model One (C) The Relationship between Audit Quality (Audit fees) and FRQ (Discretionary Accruals)

Variable	Coefficient	Std. Err.	T-Value	P-Value
AUF	-0.197	0.076	-2.600***	0.010
BI	-0.259	0.428	-0.600	0.546
BE	-0.579	0.417	-1.390	0.166
FS	0.125	0.060	2.100**	0.036
LEV	-6.767	2.968	-2.280**	0.023
SGROWTH	-0.001	0.004	-0.290	0.772
Cons	-0.006	0.021	-0.270	0.787
F- Stat	2.89			
Prob. F	0.001			
R2	0.045			
Hettest Chi2	0.070			
Prob. Chi2	0.787			
HM TestChi2	0.000			
Prob. Chi2	1.000			
Link test (hatsq)	0.285			
Mean VIF	1.400			

Note table. AUF = Audit fees, BI = board independence, BE = board expertise, FS = firm size LEV = leverage and SGROWTH = sales growth, * p<0.01, ** p<0.05, *** p<0.001 = significant at 1%, 5% and 10% respectively

The result corroborates the findings of Cohen et al. (2007), Franke et al. (2002), Hoitash et al. (2007) and Carmona et al. (2015) who found a negative significant association between the audit fees and the DA. However, in Nigeria, similar findings have been documented by Abdul Malik and Che-Ahmad (2016), Ndubuisi and Ezechukwu (2017), and Okolie (2014) who found that the audit fee significantly decreases the DA and enhances the FRQ.

5.4.5 Regression Result and Discussion on the Relationship between the Audit Quality (using BIG4) and the Discretionary Accruals

This section examines the second portion of objective three of the study which was to examine the relationship between the audit quality and the FRQ of the listed companies in Nigeria. The section also tests the hypothesis (H_{11}). In testing the hypotheses, the DA was used as the measurement for the FRQ. For interpretation purposes, indicators, such as the coefficient (β), robust standard error, t-values, and p-values were generated and presented.

Table 5.14 presents the results of model one (C) Regression two of the relationship between the audit quality (BIG 4) and the FRQ (DA). Table 5.14 shows that the BIG 4 auditors had a positive relationship with the DA. This is shown by a coefficient of (0.121) and a p-value of (0.253). This means that the BIG 4 auditor was positively but insignificantly related to the DA. A possible explanation for this is that, considering the auditors' rotations as provided by in the SEC CCG (2011) where it is stipulated that auditors should be retained for no longer than 10 years. This period may be considered too long as exceptionally prolonged auditors' tenure might impair their independence since the longer they stay as auditors of the same firm, the more

possible it is that they will befriend the management and thus, become less critical of the accounting issues (Carey & Simnett, 2006).

Table 5.14

Model One (C) Regression Two of the Relationship between the Audit Quality (BIG4) and FRQ (Discretionary Accruals)

Variable	Coefficient	Std. Err.	t-value	p-value
BIG4	0.121	0.106	1.140	0.253
BI	-0.479	0.425	-1.130	0.261
BE	-0.766	0.403	-1.900*	0.058
FS	-5.234	2.649	-1.980**	0.049
LEV	0.002	0.149	0.020	0.987
SGROWTH	0.000	0.000	-0.500	0.617
Cons	2.974	0.364	8.180***	0.000
R2	0.147			
F- Stats	2.200			
P-Value	0.042			
Hettest (Wald Chi2)	4.380			
Prob.Chi2	0.036			
HM Test(Wald Chi2)	9.470			
Prob.Chi2	0.149			
Link test (hatsq)	0.351			
Mean VIF	1.050			

Note: BIG4 = Big 4 auditors (KPMG, Price Waterhouse Coopers, Ernst & Young and Deloitte), BI = board independence, BE = board expertise, FS = firm size LEV = leverage and SGROWTH = sales growth, * p<0.01, ** p<0.05, *** p<0.001 = significant at 1%, 5% and 10% respectively

In addition, a substantial number of the sample firms were audited by the BIG 4 auditors who had less information of the local markets compared to the non-BIG 4 auditors. This may possibly create a gap as the non-BIG 4 auditors may have greater knowledge of local markets and a better relation with their clients. These reasons may enable the non-BIG 4 auditors to better recognise the irregularities in the companies (Louis, 2005). The result supports the findings of Bruynseels and Cardinaels (2014), Huang et al. (2009), and Yaşar (2013) who found a positive insignificant relationship between the DA and the BIG 4 auditors.

The comparison between the expected and the actual findings of the above regression is presented in Table 5.15. Generally, from the two variables tested in these models, one variable (AUF) was consistent with the predicted hypotheses whilst the remaining one was insignificant and disclosed the opposite sign with the research expectation.

Table 5.15

Summary Results of the Predicted and the Actual Hypothesis on the Relationship between the Audit Quality (Audit fees) and the Discretionary Accruals

HYPOTHESIS (H₁₁)	E.Sign	A.Sign	Decision
H₁₁ : There is positive relationship between AUQ (using AUF) and FRQ (using DA)	-	-sig	Supported
H₁₁ : There is positive relationship between AUQ (using BIG4) and FRQ (using DA)	-	+Insig	Not Supported

Notes: E.Sign = expected sign, A.Sign = actual sign, +ve = positive, -ve = negative, +veSig = positive significant, -veSig = negative significant, +veInSig = positive insignificant, -veInSig negative insignificant supported. -veSig is supported otherwise and not supported.

5.4.6 Mediating Effect of Audit Quality (Audit fees) on the Relationship between the AC Characteristics and the Discretionary Accruals

This section tests the first part of objective four of the thesis which was to determine the mediating effect of audit quality on the relationships between the AC characteristics and the FRQ of the listed companies in Nigeria. The section also tests hypothesis twelve (H₁₂) to examine the last condition of the mediation effect. The foregoing hypothesis was tested only on the variables that met the first three conditions of mediation under Baron and Kenny (1986). These included: (i) the dependent variable must be significantly associated with the predictor variable (the relationships between the AC characteristics and the FRQ), (ii) the mediating variable must be significantly associated with the predictor variable (the relationships between the AC characteristics and the AUQ), and (iii) the dependent variable must be significantly associated with the mediating variable (the relationship between the

QUQ and the FRQ). Consequently, two mediators were used in this current study to proxy for the audit quality (AUF and BIG 4). The mediation model is presented in this section using the AUF only since the BIG 4 model did not meet the third condition (the relationship between the BIG 4 auditors and the DA was not significant). Finally, the Sobel Test was applied to examine the significance of the mediation on any AC variable that satisfied all four conditions of mediation. In testing these hypotheses, the absolute discretionary accruals using the Kothari et al. model (2005) was adopted as a proxy for the FRQ. For the purpose of the interpretations, indicators, such as the coefficient (β), robust standard error, t-values, and p-values were generated and presented.

Table 5.16 presents the regression results of Model 1 (D) of the mediating effect of the audit quality (AUF) on the relationships between the AC characteristics and the FRQ (DA). The mediating effect of the AUF on the AC characteristics was based on the basic perception that when the ACS increases, the FRQ is expected to increase as the AUF increase. Thus, the expected relationships for the model were as follows: i) the AC characteristics have negative relationships with the DA, ii) the AC characteristics have positive relationships with the AUF, iii) the AUF has a negative relationship with the DA, and iv) the AUF mediates the relationships between the AC characteristics and the FRQ. With respect to the first condition, the ACS and the FRQ (using DA) were consistent with the hypothesis; they had negative significant relationships with the DA ($\beta = -0.234$, $p < 0.007$). Concerning the second condition, the ACS and the AUF were in line with the hypothesis as they had positive significant relationships with the AUF ($\beta = 0.392$, $p < 0.000$). In testing the third

condition, the AUF and the DA was also consistent with the hypothesis as the result revealed that there were a beta coefficient and p-value of ($\beta = -0.198$ and 0.003), respectively.

On the fourth condition, the ACS had significantly shown a lower beta coefficient of ($\beta = -0.199$) compared to the first model of ($\beta = -0.234$), implying that the impact of the independent variable (βx) on the dependent variable Y in the mediation model was less in absolute terms compared to the impact in the direct model. This suggests that all of the conditions of the causal steps method were met. Thus, it implies that the AUF partially mediated the relationship between the ACS and the FRQ of the listed companies in Nigeria.



Table 5.16*Model One (D) of the Mediating Effect of Audit Fees on the Relationship between AC Characteristics and FRQ (Discretionary Accruals)*

Variable	Direct Model Coefficient (First Condition)	Direct Model p-Val.	AC & AUF Model (Second Condition)	AC & AUF Model P-Val.	AUF & FRQ Model (Third Condition)	AUF & FRQ Model P-Val.	Mediation Model Coefficient (Fourth Condition)	Mediation Model P-val.
ACS	-0.234	0.007	0.392	0.000			-0.199	0.025
ACI	-0.220	0.715	0.350	0.373			-0.196	0.745
ACM	-0.227	0.009	0.018	0.794			-0.225	0.009
ACFAE	-1.307	0.002	0.532	0.055			-1.254	0.002
ACLE	1.514	0.013	0.789	0.043			1.577	0.011
FACM	0.540	0.000	-0.163	0.035			0.526	0.000
ACSO	-0.028	0.657	0.043	0.000			-0.026	0.653
ACT	0.022	0.508	0.002	0.948			0.022	0.511
ACC	0.226	0.127	-0.651	0.000			0.168	0.251
BI	-0.430	0.355	0.760	0.030	-0.259		-0.361	0.434
BE	-0.270	0.480	1.011	0.000	-0.579		-0.179	0.640
FS	0.103	0.023	0.372	0.000	0.125		0.136	0.020
LEV	-8.508	0.004	0.013	0.792	-6.767		-8.581	0.004
FAGE	-0.004	0.352	0.005	0.087			-0.003	0.414
SGROWTH	-0.012	0.534	0.036	0.014	-0.001		-0.009	0.641
AUF					-0.197	0.010	-0.088	0.221
Cons	2.969	0.000	0.362	0.460	-0.006	0.787	2.989	0.000
R2			0.153					
F-Stat.			4.650					
Prob. F.			0.000					

Table 5.16 Continued

Link Test (hatsq)	0.824
Hetest	9.610
Prob. Hetest	0.001
HM test (Chi2)	13.100
Prob. HM	0.5947
Mean VIF	1.390

Note: DA = discretionary accruals, ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age, SGROWTH = sales growth and AUF = audit fees.



The mediating effect was partial since the AUF did not decrease the effect of the ACS on the DA to insignificance. This supports the agency theory proponents who suggests that a larger number of AC members is associated with a higher increase in audit fees, which praises that an increase of one member to an AC brings about an extra increase in audit fees in their effort to enhance external monitoring (Kim et al., 2016; Zaman et al., 2011). Further, the Sobel test was computed to determine whether the mediation was significant. The result from the Sobel test, as depicted in Table 5.17, revealed ($t = -2.456$ and $p = 0.010$). This justified the results obtained from the causal steps method, and thus implies that the AUF partially and significantly mediated the relationship between the ACS and the FRQ of the listed companies in Nigeria.

Table 5.17
Sobel Test: Mediating Effect of the Audit Fees on the Relationship between AC Size and the Discretionary Accruals

Inputs				$S_b * S_c = \frac{S_b * S_c}{\sqrt{(\beta_c^2 * S_c^2) + (\beta_b^2 * S_e^2)}}$
$\beta_c(a)$	Test	T-values	Standard	P-Values
-0.1976482	Statistics		Errors	
$B_c(b)$	Sobel test	-2.45562221**	0.03156059	0.01406409
0.3921153				
$S_b(Sa)$	Aroian test	-2.43603351**	0.03181437	0.01484931
0.066284				
$S_c(Sb)$	Goodman	-2.47569119**	0.03130475	0.01329785
0.0527959	test			

β_c = Unstandardized parameter of the relationship between the mediator and outcome variable, β_b = Unstandardized parameter of the relationship between the independent and mediator, S_b = Standard residual of mediator, S_c = Standard residual of predictor variable, * $p < 0.01$, ** $p < 0.05$, *** $p < 0.001$ = significant at 1%, 5% and 10% respectively

The implication of this finding is that the AUF decreases the impact of the ACS on the FRQ (DA). Hence, the findings support the hypothesis (H_{12}) of the study which

presumed that the AUF mediates the relationship between the ACS and the FRQ of the listed companies in Nigeria. The results further suggest that for the AC members in Nigeria to perform their oversight and monitoring roles credibly, they need to pay high audit prices to demand better audit assurance from the external auditor which, in turn, provides better FRQ.

The result also validates the causal effect of the complementary hypothesis of audit quality which suggests that the AC needs greater assurance from the external auditors to guarantee the effective oversight of the financial reports and to safeguard their capital reputation (Boo & Sharma, 2008; Cohen et al., 2002; Marini et al., 2016). This is not surprising since the institutional theory proposes that integrating the AC to work with the external auditors will augment healthier monitoring of the financial reporting process. This is because the AC is reflected to be a formal assembly that is engaged by an organisation in a ceremonial way, but the actual monitoring of an organisation is determined by other external factors, for example, external auditors in this context. This conjecture is popularly known as "decoupling" (Escobar & Demeritt, 2017; Baker et al., 2014; Fourcade & Savelsberg, 2006).

The next variable was the ACI, considering the first condition of the ACI and FRQ (using DA), it had a negative insignificant relationship with the DA ($\beta = -0.220$, $p < 0.715$). This is not consistent with the research hypothesis. Regarding the second condition of the ACI and AUF, it is not in line with the research hypothesis as it had a positive and insignificant relationship with the AUF ($\beta = 0.350$, $p < 0.373$). Though, the third condition of the AUF and DA, was consistent with the research hypothesis as the result showed a beta coefficient and p-value of ($\beta = -0.198$ and 0.003),

respectively. The fourth condition, could not be accessed since in all of the above three conditions of the causal steps method, it was only condition three that was satisfied. Hence, as the ACI satisfied only condition three, the mediating effect of the ACI through the AUF on the DA was not supported by the results.

The audit committee meetings (ACMs) was another AC variable considered in this current study, in testing the first condition of the ACM and FRQ (using DA), it had a negative significant relationship with the DA ($\beta = -0.227$, $p < 0.009$). This is in line with the research hypothesis (H_3). Concerning the second condition of the ACM and AUF, it did not support the research hypothesis (H_{10c}) as it had a positive an insignificant relationship with the AUF ($\beta = 0.018$, $p < 0.794$). Although, the third condition of the AUF and DA was consistent with the research hypothesis as the result showed a beta coefficient and p-value of ($\beta = -0.198$ and 0.003), respectively. The fourth condition could not be examined since only condition three was fulfilled. Thus, the ACM fulfilled condition three only; so, the mediating effect of the ACM through the AUF on the DA was not supported by the results.

The audit financial accounting experts (ACFAEs) was the next important AC attribute used by the study. In examining the first condition of the ACFAEs and FRQ (using DA), the result revealed a negative significant relationship with the DA ($\beta = -1.307$, $p < 0.002$). Thus, it was consistent with the research hypothesis (H_4). Concerning the second condition of the ACFAEs and AUF, it was also in line with the research hypothesis (H_{10d}) revealing a positive significant relationship with the AUF ($\beta = 0.532$, $p < 0.055$). Interestingly, the third condition of the AUF and DA, was also consistent with the research hypothesis (H_{11}) as the result showed a beta

coefficient and p-value of ($\beta = -0.198$ and 0.003), respectively. Proceeding with the fourth condition, the impact of the ACFAEs had disclosed a lower beta coefficient of ($\beta = -1.254$) compared to the first model of ($\beta = -1.307$), inferring that the effect of the independent variable (βx) on the dependent variable Y in the direct model was less in absolute terms compared to the impact in the mediation model. This proposes that all of the conditions of the causal steps method were met. Thus, it indicates that the AUF partially mediated the relationship between the ACFAEs and the FRQ of the listed companies in Nigeria. The mediating effect was partial because the AUF effect did not decrease the impact of the ACFAEs on the DA to insignificance. To validate this result from the causal steps method, the Sobel test was conducted to examine whether this mediation was significant. The result from the Sobel test, as depicted in Table 5.18, revealed a t-value of -1.648 and p-value of 0.099 , respectively. This means that the AUF partially significantly mediated the relationship between the ACFAEs and the FRQ of the listed companies in Nigeria.

Table 5.18

Sobel Test: Mediating Effect of the Audit Fees on the Relationship between AC Financial Accounting Expert and the Discretionary Accruals

Inputs		$S_b * S_c = \frac{S_b * S_c}{\sqrt{(\beta_c^2 * S_c^2) + (\beta_b^2 * S_c^2)}}$		
β_c (a)-	Test	Standard	P-Values	
0.1976482	Statistics	Errors		
$B_b(b)$	Sobel test	-1.64834491^*	0.06384307	0.09928191
0.5324379				
$S_b(S_a)$	Aroian test	-1.58751746	0.06628928	0.1123955
0.066284				
$S_c(S_b)$	Goodman	-1.71674681^*	0.06129931	0.08602544
0.2691729	test			

β_c = Unstandardized parameter of the relationship between the mediator and outcome variable, β_b = Unstandardized parameter of the relationship between the independent and mediator, S_b = Standard residual of mediator, S_c = Standard residual of predictor variable, * $p < 0.01$, ** $p < 0.05$ = significant at 1%, 5% and 10% respectively

The implication of this result is that the AUF alters the impact of the ACFAEs on the FRQ (DA). A possible explanation for this could be as a result of the fact that Nigeria had recently adopted the IFRS which made the accounting practice become more complex. This is because the migration from the local standards (SAS) to the international standards (IFRS) requires a shift from „rule-based standards” to “principles-based standards”. Thus, the „rules-based standards” contain the precise criteria, such as the scope limitations, exemptions, successive precedents, and application guidance, amongst others. On the contrary, the „principles-based standards” have to do with the basic understanding to report transactions and financial events. As a result of the foregoing fact, the ACFAEs in Nigeria need a thorough work effort from the external auditors requiring the payment of a high AUF resulting from the demand for greater audit efforts from the external auditors to enhance the FRQ.

It also means that a larger proportion of the ACFAEs increases the AUF in their quest for greater assurance whilst the resultant increase in the AUF decreases the DA, and this is associated with better FRQ. Hence, the findings support the hypothesis (H_{12}) of the study which presumed that the AUF mediates the relationship between the ACFAEs and FRQ of the listed companies in Nigeria. The results support the agency theory which advocates that financial accounting experts in the AC exhibit a greater increase in the AUF, which endorses that an increase of financial accounting experts on the AC is associated with a supplementary increase in the AUF in their effort to enhance the external monitoring (Abbott et al., 2003; Carcello & Neal, 2003; Kim et al., 2016). The findings also validate the prior studies

(Cohen & Hanno, 2000; Bédard et al., 2004; Kaplan & Reckers, 1985) which document that when the external auditors perceived that they could not depend on the internal mechanisms, like the board of directors or AC, to assist in supervising the FRQ, they increased the audit effort by charging higher audit fees.

The next variable was the audit committee legal experts (ACLEs), in view of the first condition of the ACLE and FRQ, it had a positive significant relationship with the DA ($\beta = 1.514$, $p < 0.013$). Since it revealed the opposite sign, the result is not consistent with the research hypothesis (H_5). In examining the second condition of the ACLEs and AUF, it was found that the result is in line with the research hypothesis (H_{10e}) as it had a positive significant relationship with the AUF ($\beta = 0.789$, $p < 0.043$). As for the third condition of the AUF and DA, it was consistent with the research hypothesis as the result showed a beta coefficient and p-value of ($\beta = -0.198$ and 0.003), respectively. Overall, the fourth condition could not be accessed since in the above three conditions of the causal steps method, condition one was not satisfied. Thus, the ACLEs fulfilled two conditions instead of three; hence, the mediating effect of the ACLEs through the AUF on the DA was not supported by the above results.

With respect to the FACMs, the first condition which was the FACMs and FRQ (using DA), had a positive significant relationship with the DA ($\beta = 0.540$, $p < 0.000$). It was revealed that there was an opposite sign; thus, it was not consistent with the research hypothesis (H_6). For the second condition of the FACMs and AUF, the result is not consistent with the research hypothesis (H_{10f}) since it revealed the opposite sign of a negative significant relationship with the AUF ($\beta = -0.163$, $p <$

0.035). Considering the third condition of the AUF and DA, it was consistent with the research hypothesis showing a beta coefficient and p-value of ($\beta = -0.198$ and 0.003), respectively. Thus, the fourth condition could not be achieved since from the foregoing causal steps method, condition one and two were not supported. Hence, the FACMs fulfilled only one condition instead of all three; therefore, the mediating effect of the FACMs through the AUF on the DA was not supported by the above results.

Concerning the ACSO, the following results were revealed. The first condition showed a negative but insignificant relationship between the ACSO and the DA ($\beta = -0.028$, $p < 0.657$). Though it had a negative sign, it did not support the research hypothesis (H_7). In relation to the second condition of the ACSO and AUF, it was consistent with the research hypothesis (H_{10g}) since it showed a positive significant relationship with the AUF ($\beta = 0.043$, $p < 0.000$). The third condition of the AUF and DA was also consistent with the research hypothesis (H_{11}) as the result revealed a beta coefficient and p-value of ($\beta = -0.198$ and 0.003), respectively. Unfortunately, the fourth condition could not be accessed using the causal steps method since the first condition was not significant. But, luckily, Hayes and Rockwood (2017) contended that all of these conditions must not necessarily be met before mediation takes place since the relationship is not necessary or sufficient for causation. Therefore, since the sign of the ACSO in the first condition was negative, The Sobel test was conducted to determine whether the mediation was significantly existing. Interestingly, the results from the Sobel test, as depicted in Table 5.19, revealed a t-value and p-value of ($t = -2.287$ and 0.022), respectively. This means that the AUF

significantly mediated the relationship between the ACSO and the FRQ of the listed companies in Nigeria. A possible explanation for this could be that considering the result of the second condition ACSO and AUF, it was found that shareholders in the AC demand for greater audit effort from the external auditors by paying high audit fees. This will complement their monitoring ability on financial reporting process. Because their willingness to incur higher audit fees indirectly reduced EM and enhance FRQ. This was found from the result of the third condition of mediation which revealed that higher AUF decreases DA, which in return enhance FRQ. This is not surprising because in Nigeria, Adam and Bala (2015) revealed that the directors' ownership had a significant influence on the audit quality of the Nigerian banks. They suggested that a higher proportion of the directors' ownership enhanced their monitoring role by providing greater audit assurance through engaging better auditors.

Table 5.19
Sobel Test: Mediating Effect of the Audit Fees on the Relationship between AC Stock Ownership and the Discretionary Accruals

Inputs		$\frac{S_b * S_c}{\sqrt{(\beta c^2 * S_c^2) + (\beta b^2 * S_c^2)}}$		
βc (a)	Test Statistics		Standard Errors	P-Values
-0.1976482				
βb (b)	Sobel test	-2.28722705**	0.0036909	0.02218257
0.0120087				
S_b (Sa)	Aroian test	-2.2360358**	0.0037754	0.02534943
0.066284				
S_c (Sb)	Goodman test	-2.34210325**	0.0036044	0.01917541
.0661426				

βc = Unstandardized parameter of the relationship between the mediator and outcome variable, βb = Unstandardized parameter of the relationship between the independent and mediator, S_b = Standard residual of mediator, S_c = Standard residual of predictor variable, * $p < 0.01$, ** $p < 0.05$, *** $p < 0.001$ = significant at 1%, 5% and 10% respectively

The consequence of this finding is that the AUF alters the impact of the ACSO on the FRQ (DA). Thus, the result supports the hypothesis (H_{12}) of the study which assumed that the AUF mediates the relationship between the ACSO and the FRQ of the listed companies in Nigeria. The result also assists to provide a causal effect of the AC and the audit quality, thus establishing that the ACSO serves as a monitor by demanding higher audit quality in exchange for greater audit efforts. The findings also confirm the agency theory which suggests that the demand for an independent external auditor ascends from a desire to lower the management deception that results from asymmetric information between the shareholders and the managers (Jensen & Meckling, 1976; Menon & Williams 1994).

For the audit committee tenure (ACT), the first condition, which was the ACT and FRQ (using DA), revealed that it had a positive insignificant relationship with the DA ($\beta = 0.022$, $p < 0.508$). Thus, the result does not support the research hypothesis (H_8). For the second condition of the ACT and AUF, the result is also inconsistent with the research hypothesis (H_{10h}) since it had a positive insignificant relationship with the AUF ($\beta = 0.022$, $p < 0.511$). The third condition was fulfilled as it had a beta coefficient and p-value of ($\beta = -0.198$ and 0.003), respectively. Consequently, the fourth condition could not be achieved since from the foregoing causal steps method, only condition three was supported. Hence, the ACT fulfilled one condition instead of three, thus the mediating effect of the ACT through the AUF on the DA was not supported by the above findings.

Finally, the results of the Audit committee chair (ACC), obtained from the first condition of the ACC and FRQ, show that it had a positive insignificant relationship

with the DA ($\beta = 0.226, p < 0.127$). Accordingly, the result does not support the research hypothesis (H_9). For the second condition of the ACC and AUF, the result is also inconsistent with the research hypothesis (H_{10i}) since it has an opposite sign, though it was significantly related to the AUF ($\beta = -0.651, p < 0.000$). The third condition was satisfied as it had a beta coefficient and p-value of ($\beta = -0.198$ and 0.003), respectively. As a result of the foregoing, the fourth condition could not be accomplished since from the above causal steps method, only condition three was supported. Hence, the ACC fulfilled one condition only instead of three; thus, the mediating effect of the ACC through the AUF on the DA was not supported by the above results.

The comparison between the expected and the actual findings of the foregoing regression is presented in Table 5.20. Overall, from the nine variables tested in this mediation model, three variables supported the predicted hypotheses whilst the remaining six did not. Precisely, three variables were consistent with the condition of mediation whilst the remaining six variables were not.

Table 5.20

The Summary of the Predicted and the Actual Results for on the Mediating Effect of the Audit Fees on the Relationship between AC Characteristics and the Discretionary Accruals

HYPOTHESIS	Type of Med.	Decision
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Size (ACS)</i> and FRQ (IS)	P.Mediated	Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Independence (ACI)</i> and FRQ (IS)	Not Mediated	Not Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Meetings (ACM)</i> and FRQ (IS)	Not Mediated	Not Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Financial Accounting Expertise (ACFAE)</i> and FRQ (IS)	P. Mediated	Supported

Table 5.20 Continued

H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Legal Expert (ACLE)</i> and FRQ (IS)	Not Mediated	Not Supported
H₁₂ : AUQ (AUF) mediates the relationship between Female <i>AC (FACM)</i> and FRQ (IS)	Not Mediated	Not Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Stock Ownership (ACSO)</i> and FRQ (IS)	P.Mediated	Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Tenure (ACT)</i> and FRQ (IS)	Not Mediated	Not Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Chair (ACII)</i> and FRQ (IS)	Not Mediated	Not Supported

Notes: E.Sign = expected sign, A.Sign = actual sign, +ve = positive, -ve = negative, +veSig = positive significant, -veSig = negative significant, +veInSig positive insignificant, -veInSig negative insignificant supported. -veSig is supported otherwise and not supported, P.Mediated = partially mediated.

5.5 Robustness Check

To assess the robustness of the results and to ensure that the findings were free from unsolicited bias, robustness tests were conducted to confirm that the findings of the study's estimations were insensitive to the firms' fixed effect and the firms' specific attributes, alternative measurements, and selection of the outcome variable. The following provides the results for the robustness checks employed by the study.

5.5.1 Alternatives Estimation

Since the data set of the study consisted of time-variant and industry specifications, this may lead to errors that are clustered and presumably correlated overtime. And, this may affect the outcome of the criterion variable and the predictor variables, thus leading to misleading inferences (Tsalavoutas et al., 2012). Similarly, the reportage time and the number of industries in the data set might suggest two broad forms of dependence, which might be cross-sectional dependence or time series or both (Wooldridge, 2007). For that, the heteroscedastic robust standard errors clustered

across firms were used to re-estimate the previous main models (both direct and mediated model) following Bronson et al. (2017), Bruynseels et al. (2015), Christensen et al. (2016), Krishnan et al. (2011), and Lai et al. (2017).

The result of the models' heteroscedastic robust standard errors clustered across firms revealed that the coefficients of the estimation, the sign, and the levels of significance for each variable were consistent with the main models (both the direct and mediated model). It is notable that the consistencies of the findings of the heteroscedastic robust standard errors clustered across firms with those of the main models presented in Table 5.21 implies that the findings were unbiased due to the likelihood of heteroscedasticity.

Table 5.21
Results of the Alternatives Estimation (Heteroskedasticity Robust Standard Error Clustered across Firms)

	(1)	(2)	(3)	(4)
Variable	Main(Direct)	Alternative(Direct)	Main(with Mediator)	Alternative(with Mediator)
ACS	-0.234*** (0.0868)	-0.234*** (0.0804)	-0.199** (0.0885)	-0.199** (0.0888)
ACI	-0.220 (0.604)	-0.220 (0.577)	-0.196 (0.601)	-0.196 (0.569)
ACM	-0.227*** (0.0859)	-0.227*** (0.0789)	-0.225*** (0.0854)	-0.225*** (0.0783)
ACFAE	-1.307*** (0.410)	-1.307*** (0.400)	-1.254*** (0.407)	-1.254*** (0.406)
ACLE	1.514** (0.605)	1.514** (0.649)	1.577** (0.614)	1.577** (0.646)
FACM	0.540*** (0.113)	0.540*** (0.121)	0.526*** (0.116)	0.526*** (0.123)
ACSO	-0.028 (0.062)	-0.027 (0.065)	-0.026 (0.060)	-0.027 (0.065)
ACT	0.0219 (0.033)	0.0219 (0.0317)	0.0216 (0.0329)	0.0216 (0.0315)
ACC	0.226 (0.148)	0.226* (0.128)	0.168 (0.146)	0.168 (0.135)
BI	-0.430	-0.430	-0.361	-0.361

Table 15.21 Continued.

	(0.465)	(0.473)	(0.461)	(0.470)
BE	-0.270 (0.382)	-0.270 (0.348)	-0.179 (0.383)	-0.179 (0.357)
FS	0.103** (0.0451)	0.103** (0.0469)	0.136** (0.0585)	0.136** (0.0532)
LEV	-8.508*** (2.917)	-8.508*** (2.864)	-8.581*** (2.935)	-8.581*** (2.873)
FAGE	-0.00363 (0.00390)	-0.00363 (0.00380)	-0.00319 (0.00390)	-0.00319 (0.00375)
SGROWTH	-0.0122 (0.0197)	-0.0122 (0.0194)	-0.00915 (0.0196)	-0.00915 (0.0188)
AUF			-0.0881 (0.0719)	-0.0881 (0.0590)
Constant	2.969*** (0.773)	2.969*** (0.782)	2.989*** (0.768)	2.989*** (0.781)
Observations	440	440	440	440
R-squared	0.150	0.150	0.153	0.153

Note table DA= discretionary accruals, ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age, SGROWTH = sales growth and AUF = audit fees, Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0. = significant at 1%, 5% and 10% respectively

5.5.2 Alternative Measure of the Independent Variables

This section provides alternative measures of the independent variables of the study.

The alternatives measurements were selected as additional sensitivity checks. In the main analysis, seven independent variables were measured as continuous variables.

These included the ACS, ACI, ACMs, ACFAEs, ACLEs and ACT. Following Krishnan et al. (2011), Xie et al. (2003), Yasin and Nelson (2012), and Zhang et al. (2007), in this additional analysis, the continuous variables were re-measured as dummy variables. The FACM variable was re-measured from the dummy to the continuous variable. ACSO was re-measured from the units of shares possessed by the AC members to the percentage of the AC shares (units of AC shares divided total

number of shares outstanding to the firm). Table 5.22 presents the main and alternative results for the robustness test.

It was observed that the signs and the coefficients of the main models (both direct and mediated) were substantially similar to those of the robustness checks. A slight change was also observed in the ACMs and ACFAEs as their levels of significance reduced from 1% in the main analyses to 5% in the additional analysis. In addition, the ACLEs have also been revealed to have a slight change from 5% in the main models to 1% in the sensitivity checks.

Table 5.22
Result for the Alternative Measure of Independent Variables

	(1)	(2)	(3)	(4)
Variables	Robust (Main Direct)	Robust (Alternative Direct)	Robust Main (Mediated)	Robust Alternative (Mediated)
ACS	-0.234*** (0.0868)	-0.573*** (0.165)	-0.199** (0.0885)	-0.493*** (0.171)
ACI	-0.220 (0.604)	-0.248 (0.430)	-0.196 (0.601)	-0.265 (0.417)
ACM	-0.227*** (0.0859)	-0.374** (0.165)	-0.225*** (0.0854)	-0.378** (0.166)
ACFAE	-1.307*** (0.410)	-0.381** (0.165)	-1.254*** (0.407)	-0.360** (0.163)
ACLE	1.514** (0.605)	0.353*** (0.114)	1.577** (0.614)	0.360*** (0.115)
FACM	0.540*** (0.605)	2.209*** (0.552)	0.526*** (0.614)	2.157*** (0.555)
ACSO	-0.028 (0.062)	-0.00479 (0.0188)	-0.026 (0.060)	-0.00115 (0.0192)
ACT	0.226 (0.148)	0.0501 (0.103)	0.168 (0.146)	0.0490 (0.103)
ACC	-0.430 (0.465)	0.208 (0.146)	-0.361 (0.461)	0.147 (0.144)
BI	-0.270	-0.551	-0.179	-0.433

Table 15.22 Continued

	(0.382)	(0.458)	(0.383)	(0.457)
BE	0.103**	-0.342	0.136**	-0.253
	(0.0451)	(0.399)	(0.0585)	(0.401)
FS	-8.508***	0.0917**	-8.581***	0.134**
	(2.917)	(0.0443)	(2.935)	(0.0591)
LEV	-0.00363	-6.105**	-0.00319	-6.275**
	(0.00390)	(2.897)	(0.00390)	(2.926)
FAGE	-3.49e-10	-0.00342	-3.53e-10	-0.00288
	(7.86e-10)	(0.00407)	(7.86e-10)	(0.00405)
SGROWTH	-0.0122	-0.00161	-0.00915	-0.00154
	(0.0197)	(0.00130)	(0.0196)	(0.00132)
AUF			-0.0881	-0.105
			(0.0719)	(0.0737)
Constant	2.969***	1.963**	2.989***	2.080**
	(0.773)	(0.955)	(0.768)	(0.937)
Observations	440	440	440	433
R-squared	0.150	0.127	0.153	0.132

Note: DA= discretionary accruals, ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age, SGROWTH = sales growth and AUF = audit fees, Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1 = significant at 1%, 5% and 10% respectively.

5.5.3 Alternative Measure of the Dependent Variables

This section provides an alternative measure of the dependent variable of the study.

The alternative measurement was opted for as another additional sensitivity check. In the main analysis, Kothari et al.'s model (2005) was used. Following Collins et al. (2017), Huang, Lao and McPhee (2017), and Kim, Su and Zhu (2017), this study used the firms' growth adjusted model developed by Collins et al. (2017) as an alternative measurement of the DA. The model controls the firm growth in addition to the control of the performance by Kothari et al.'s model (2005).

Table 5.23 presents the main and alternative results for the sensitivity checks. It was manifest from Table 5.23 that, the signs and the coefficients of the main models

(both direct and mediated) were considerably similar to those of the sensitivity checks. It was evident that one major distinction was shown in the ACI that was negatively and insignificantly related to the DA in the main model, but changed to a positive insignificant relation in the sensitivity checks.

Table 5.23
Result for the Alternative Measure of Dependent Variables

Variable	(1)	(1)	(2)	(2)
	Robust Main	Robust Main Alt.	Robust Main Med	Robust Med. Alt.
ACS	-0.234*** (0.0868)	-0.0666*** (0.0239)	-0.199** (0.0885)	-0.0522** (0.0254)
ACI	-0.220 (0.604)	0.147 (0.175)	-0.196 (0.601)	0.157 (0.175)
ACM	-0.227*** (0.0859)	-0.0506* (0.0303)	-0.225*** (0.0854)	-0.0499* (0.0302)
ACFAE	-1.307*** (0.410)	-0.427*** (0.123)	-1.254*** (0.407)	-0.405*** (0.123)
ACLE	1.514** (0.605)	0.402** (0.187)	1.577** (0.614)	0.428** (0.187)
FACM	0.540*** (0.113)	0.0854** (0.0348)	0.526*** (0.116)	0.0795** (0.0349)
ACSO	-0.028 (0.062)	-0.014 (0.017)	-0.026 (0.060)	-0.014 (0.017)
ACT	0.226 (0.148)	0.00231 (0.0113)	0.168 (0.146)	0.00221 (0.0113)
ACC	-0.430 (0.465)	-0.0136 (0.0526)	-0.361 (0.461)	-0.0102 (0.0545)
BI	-0.270 (0.382)	-0.118 (0.154)	-0.179 (0.383)	-0.0898 (0.155)
BE	0.103** (0.0451)	-0.206 (0.127)	0.136** (0.0585)	-0.169 (0.129)
FS	-8.508*** (2.917)	0.0286** (0.0128)	-8.581*** (2.935)	0.0422*** (0.0153)
LEV	-0.00363 (0.00390)	-2.206** (0.945)	-0.00319 (0.00390)	-2.236** (0.943)
FAGE	-0.00363 (0.00390)	-0.00160 (0.00124)	-0.00319 (0.00390)	-0.00142 (0.00124)
SGROWTH	-0.0122 (0.0197)	-0.00656 (0.00623)	-0.00915 (0.0196)	-0.00529 (0.00627)
AUF			-0.0881 (0.0719)	-0.0360 (0.0220)
Constant	2.969*** (0.773)	0.736*** (0.235)	2.989*** (0.768)	0.744*** (0.234)
Observations	440	440	440	440
R-squared	0.150	0.112	0.153	0.117

Note: DA= discretionary accruals, ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age, SGROWTH = sales growth and AUF = audit fees, *** p<0.01, ** p<0.05, * p<0.1 = significant at 1%, 5% and 10% respectively

Furthermore, the FACMs and ACMs were also revealed to have a slight variation from a 1% to 5% significance level and from a 1% to 10% significance level, respectively, in the sensitivity checks.

5.6 Summary of the Chapter

This chapter presented the results to answer the first section of questions, one to four, of the thesis, which were: 1) Do the AC characteristics influence the FRQ (DA) of the listed companies in Nigeria?, 2) Do the audit committee characteristics influence the audit quality (AUF and BIG 4) of the listed companies in Nigeria?, 3) Does the audit quality affect the FRQ of the listed companies in Nigeria, and 4) Does the audit quality mediate the relationships between the AC characteristics and the FRQ of the listed companies in Nigeria?.

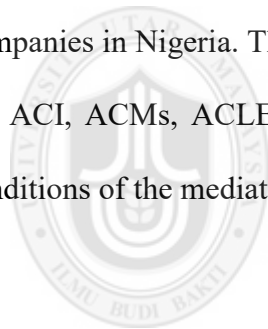
The analyses and interpretations consisted of a series of regressions to suit the mediation procedure using the causal steps method and the Sobel test. The first procedure was set to examine the relationships between the independent variables (AC characteristics) and the dependent variable FRQ (proxied by the DA). The second procedure was to test the relationships between the independent variables and the mediator, audit quality (proxied by AUF and BIG 4). These procedures consisted of two regression estimations. The next step was examining the relationship between audit quality and FRQ which also included two regression equations. Finally, the mediating effect of audit quality on the relationships between the AC characteristics and the FRQ was accessed. This also required two regression estimations, but subject

to the fulfillment of the conditions of mediation as suggested by Baron and Kenny (1986), Sobel (1982), and Hayes and Rockwood (2017). In line with these, only the first mediator (AUF) was considered whilst the second mediator (BIG 4) did not meet the criterion.

From the results of the first procedure (the relationship between the AC characteristics and the DA), the study established that the ACS, ACMs, ACFAEs, and ACSO reduced the magnitude of managers' opportunistic behaviours in the form of the DA. Thus, these findings supported H₁, H₃, H₄ and H₇ as predicted. The study has also confirmed that the ACI, ACLEs, FACMs, ACT, and ACC did not meaningfully mitigate earnings management practices and thus, may not improve the FRQ.

Considering the second procedure (the relationships between the AC characteristics and audit quality), the study provides evidence that the ACS, ACFEs, ACLEs, and ACSO performed a complimentary effect on the audit quality by increasing the AUF for greater audit assurance. The FACMs, and ACC showed evidence of a substitutional effect of providing greater commitment to the AC in order to decrease the audit fees. The ACI did not provide any meaningful contribution in the determination of the audit price. More so, the study has provided the premise that the ACI, ACFEs, ACLEs, FACMs and ACSO increase the likelihood of engaging the services of BIG 4 auditors in the listed companies in Nigeria. On the contrary, the ACS did not establish any significant influence on the choice of auditor brand name.

The findings from the third step of mediation (the relationship between the audit quality and the FRQ) established that increasing the AUF is associated with lower DA, thus supporting the predicted hypothesis. On the other hand, it was documented that the choice of auditor brand name did not play any pivotal role in constraining managers from earnings management practices. Finally, the last analysis was conducted to test the mediating role of the audit quality on the effect of the AC characteristics and the FRQ (DA). From the mediators, only the AUF has satisfied condition three and thus, the mediating analysis in the last step was conducted only using the AUF. The results reveal that the AUF partially and significantly mediated the relationships between the ACS, ACFEs, ACSO, and the DA of the listed companies in Nigeria. The mediating effects of the AUF on the relationships between the ACI, ACMs, ACLEs, FACMs, ACT, and ACC were not accessed since some conditions of the mediation were not fulfilled by the predictor variables.



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CHAPTER SIX
FINDINGS AND ANALYSIS II (IS)
AUDIT COMMITTEE CHARACTERISTICS AND INCOME
SMOOTHING: THE MEDIATING EFFECT OF AUDIT QUALITY

6.1 Introduction

This chapter provides the analysis of the second measurement of the dependent variable (FRQ) proxied by EM measurement using income smoothing (IS). In this chapter, income smoothing (IS) is used as another measurement of FRQ. The chapter also presents the results and analyses of the last segment of objectives one to four of the thesis, which were: 1) to determine the influence of the audit committee characteristics on the FRQ (IS) of the listed companies in Nigeria, 2) to determine the effect of the audit committee characteristics on the audit quality (AUF and BIG 4) of the listed companies in Nigeria, 3) to assess the effect of the audit quality on the FRQ of the listed companies in Nigeria, and 4) to examine the mediating effect of the audit quality on the relationship between the AC characteristics and the FRQ of the listed companies in Nigeria. The chapter is divided into six sections. Section 6.1 contains the outline of the chapter. Section 6.2 elucidates the post estimation tests for binomial logistic regression. Section 6.3 shows the descriptive statistics related to the dichotomous variables of the study. Section 6.4 interprets the findings of the multivariate analysis enumerating the relationship between the AC characteristics and IS, audit quality and IS, and the mediating effect of audit quality on the relationship between the AC characteristics and IS. An additional analysis is provided in Section 6.5 and, finally, Section 6.6 is the summary of the chapter.

6.2 Post-estimation Tests for Binomial Logistic Regression

This section elucidates the post-estimation tests performed in order to ensure that the assumptions of the logistic regressions are met to evade misleading inferences. The post-estimation tests conducted in this study comprised the multi-collinearity test, tests of model fitness, and model specification test.

6.2.1 Multicollinearity Test

This test is usually conducted to check for the presence of collinearity or otherwise amongst the predictor variables. This is widely conducted using correlation. It was essential to test the correlation between the predictor variables used in the present study. Consequently, Table 6.1 presents the correlation coefficients amongst the predictor variables to identify whether multi-collinearity existed. It is observed that the uppermost correlation coefficients were between the ACM and ACS (0.480), and the AUF and ACS (0.430), respectively. Nevertheless, these correlations were below the benchmark of 0.8 suggested by Gujarati (2004) and 0.9 suggested by Hair et al. (2014) and Pallant (2011).

Table 6.1*Correlation Matrix of the Relationship between the AC Characteristics, Audit Quality and Income Smoothing*

Variable	IS	ACS	ACI	ACM	ACFAE	ACLE	FACM	ACSO	ACT
IS	1								
ACS	-0.09	1							
ACI	-0.108*	0.063	1						
ACM	0.021	0.48***	0.028	1					
ACFAE	0.077	0.035	0.114*	0	1				
ACLE	-0.14**	0.24***	0.034	0.176	0.013	1			
FACM	-0.100*	0.23***	0.037	0.21**	0.067	0.344	1		
ACSO	-0.049	0.002	0.001	-0.02**	0.108*	-0.08**	-0.065	1	
ACT	-0.105*	0.04	-0.048	0.111	-0.009	-0.045	-0.002	-0.052	1
ACC	0.031	0.13****	0.12**	0.073*	0.005	0.17**	0.13**	-0.005	-0.095
BI	-0.034	-0.22***	0.15**	-0.086	0.111*	0.066	-0.13**	-0.034	0.053*
BE	0.122*	0.01	0.023	0.07	0.19**	-0.10**	-0.039	0.074	0.083
FS	0.015	0.17***	-0.019	0.083	0.012	0.059	0.054	0	0.061
LEV	-0.047	-0.043	0.005	-0.10**	-0.012	0.059	-0.032	-0.014	-0.103*
FAGE	0.039	0.033	-0.03	0.049	0.008	-0.025	0.027	0.038	0.043
SGROWTH	0.097*	-0.07	-0.057	-0.10**	-0.005	-0.009	-0.055	0.005	-0.007
AUF	-0.078*	0.51***	0.08	0.22**	0.152*	0.082	0.011	0.068	0.093
	ACC	BI	BE	FS	LEV	FAGE	SGROWTH	AUF	
ACC	1								
BI	-0.057	1							
BE	-0.011	0.21**	1						
FS	0.05	-0.057	0.16**	1					
LEV	-0.098*	0.052	0.03	-0.018	1				
FAGE	0.089	0.029	0.130*	0.098	0.058	1			
SGROWTH	-0.073	0.038	-0.14**	-0.069	-0.03	-0.09**	1		
AUF	-0.094*	0.021	0.28**	0.168	0.004	0.18***	-0.02	1	

Note : IS = Income smoothing, ACS = AC size, ACI = AC, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age, SGROWTH = sales growth AUF = audit fees and BIG4 = Big4 auditors (KPMG, Price Waterhouse Coopers, Ernst & Young and Deloitte * p<0.01, ** p<0.05, *** p<0.001. = significant at 1%, 5% and 10% respectively

Furthermore, the VIF test is used to confirm whether multi-collinearity exists or not. Table 6.2 designates the values of tolerance and the VIF for the AC characteristics, audit quality, and control variables. The tolerance values of less than 1 and a VIF of less than 10 as depicted in Table 6.2 indicates that there was no evidence of a multi-collinearity issue amongst the independent variables.

Table 6.2
Collinearity Diagnostic of the AC Characteristics, Audit Quality and Control Variables

Variable	VIF	Tolerance
ACS	1.880	0.531
ACI	1.080	0.925
ACM	1.310	0.764
ACFAE	1.110	0.900
ACLE	1.280	0.781
FACM	1.280	0.784
ACSO	1.040	0.966
ACT	1.090	0.921
ACC	1.140	0.874
BI	1.210	0.825
BE	1.290	0.775
FS	1.080	0.927
LEV	1.060	0.947
FAGE	1.080	0.923
SGROWTH	1.060	0.945
AUF	1.740	0.575
BIG4	1.230	0.814

Note: ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size, LEV = leverage, FAGE = firm age, SGROWTH = sales growth, AUF = audit fees and BIG4 = Big4 auditors (KPMG, Price Waterhouse Coopers, Ernst & Young and Deloitte) and VIF = Variance Inflation Factor.

6.2.2 Model Fitness Test

Table 6.3 represents the results of the model fitness. The models' overall goodness of fit was conducted by using the likelihood ratio χ^2 . The likelihood ratio χ^2 statistics of 78.76 and 67 were significant at 1% levels, signifying goodness of fit of all the

models. Another indicator for model fitness is the Wald tests. Table 6.3 reveals the „Wald chi-square test statistics“ of 44.580 and 46.480, significant at 1% (p-value = 0.000). This designates that, at a minimum, one of the parameters in the estimation has an impact on the outcome variable of the study.

Table 6.3
Goodness of Fit Test of the Models

Test	IS & AC (Direct)	IS & AC (Mediated)	IS & AUF	IS & BIG4
Likelihood Ratio	0.014	0.009	0.001	0.001
x2	78.760	67.000		
Wald Test P-val.	0.000	0.000	0.000	0.001
& Chi-Sqr.	44.580	46.800		
Hosmer-Lemeshow	0.638	0.572	0.502	0.194
% Correct Prediction	67.88%	67.43%	64.77%	65.230%

Note: IS =Income smoothing, AC = Audit committee, AUF = Audit fees BIG4 = Big 4 auditors.

The Pseudo R² is an additional indicator of model fitness. Conversely, Hosmer and Lemeshow (2000) contended that the reportage of the Pseudo R² is incomparable to the R² in the ordinary least squares (OLS). They suggested a test which shows how well a model fits the data. Consequently, supplementary confirmation on model fitness is established by the Hosmer and Lemeshow test which recommends partitioning the observations into ten identical sized groups in accordance with their predicted probabilities. In line with this, an insignificant chi-square demonstrates the adequate fitness of the model; whereas, a significant chi-square indicates that the model does not sufficiently fit the data. Table 6.3 shows the Hosmer-Lemeshow insignificant p-values of 0.638, 0.572, 0.502, and 0.194, respectively, from all the models. Hence, this implies that the estimations of the models fit the data at a tolerable level. Finally, the percentage of the correct predictions is another yardstick for the goodness of model fit. This test is obtained using a classification table which

demonstrates the predictive power of the model by calculating the models' capacity in categorising the outcomes of the criterion variable. Accordingly, the percentage of correct predictions confirms the degree to which the actual result resembles the predictions made. Table 6.3 reveals the percentages of the cases appropriately predicted as 67.88%, 67.43%, 64.77%, and 65.230%, respectively, in all the models. Thus, it may be considered high since Pampel (2000) recommends the ranges of 50% and 100% correctly predicted cases as a measurement of the predictive accuracy.

6.2.3 Model Specification Test

The model specification test is another significant mechanism that is used to check the reliability of the regression estimates. Since illusive inferences could be the consequence of improper model specification, to avoid bias and inconsistent findings, the model specification test was conducted using the link test. Table 6.4 presents the link test results of all the models of the study.

Table 6.4
Model Specification Test

Test	IS (Direct)	IS (Mediated)	IS & AUF	IS & BIG4
LinkTest (hatsq)	0.895	0.652	0.924	0.505

Note: IS =Income smoothing, AC = Audit committee, AUF = Audit fees BIG4 = Big 4 auditors.

6.3 Descriptive Statistics Related to the Regression Variables

Table 6.5 presents the descriptive statistics of the dichotomous variables employed by this study using frequencies and percentages. Table 6.5 reveals that 270 observations occupying 54 companies were recognised as income smoothers whilst the remaining 170 observations (34 companies) were recognised as non-smoothers.

This implies that more than 61% of the sampled firms in the listed companies in Nigeria engaged in the IS practice. It is observed that only 54 companies out of the total 88 had at least one female director in their AC whilst the remaining 46 companies did not recognize the presence of female directors.

Table 6.5
Descriptive Statistics of the Dichotomous Variables

Variable	Obs.	Frequency		Percentage		Total %
		0	1	0	1	
IS	440	170	270	38.64	61.36	100
FACM	440	201	239	45.68	54.32	100
ACC	440	49.0	391	11.14	88.86	100
BIG4	440	185	255	42.05	57.95	100

Note: IS = Income smoothing index (A dummy 1 was assigned to a firm classified as income smoother and otherwise 0), FACM = female AC member, ACC = AC chair, BIG4 = Big4 auditors (KPMG, Price Waterhouse Coopers, Ernst & Young and Deloitte) and No. of observations = is made of 88 companies multiply by 5 years (440 firm-year observations).

Table 6.5 also showed that about 89% of the AC chairs of the sampled firms were shareholders whilst only 11% of the AC chairs were directors. It was also revealed that 58% of the sampled firms were audited by BIG 4 auditors whilst the remaining 42% were audited by Non-BIG 4 auditors. Next, Table 6.6 presents the descriptive statistics of the IS partitioned by year.

Table 6.6
Descriptive Statistics of the Income Smoothing Partitioned by Year

IS	2012	2013	2014	2015	2016	Total
0	35	37	37	30	31	170
1	53	51	51	58	57	270
Total	88	88	88	88	88	440

Note: IS = Income smoothing index, & No. of observations = is made of 88 companies multiply by 5 years (440 firm-year observations).

It is deduced from Table 6.6 that the smoothing behaviour decreased from 53 companies to 51 companies from 2012 to 2013 and 2014, respectively. This implies

that the IS was high during the first year of the IFRS adoption and remained constant in the succeeding two years from 2013 to 2014. The numbers of smoothed firms continued to increase in the years from 2015 to 2016, with 2015 having the highest number of smoothers. The result implies that the IS practice increased during and after the adoption of the IFRS. This corroborates the findings of Ozili (2015) who revealed that the listed banks in Nigeria smoothed their reported income over time during the periods of the voluntary IFRS adoption, and suggested that the IFRS adoption reduced the reliability of the loan loss provisions in Nigeria.

6.4 Multivariate Analysis: Mediating Effect of Audit Quality on the Relationship between the AC Characteristics and Income Smoothing

This section provides the statistical results for the variables of the study that were tested to examine the mediating effect of audit quality (AUF and BIG 4) on the relationship between the AC characteristics and FRQ proxied by EM measurement (using IS). The section also utilises the two approaches of testing the mediation effect under multiple regressions. They were the causal steps developed by Baron and Kenny (1986) and the Sobel Test. The causal steps examined whether the conditions of the mediation were met before applying the Sobel Test. The next sections present these sequences of regressions as proposed by Baron & Kenny (1986) and the Sobel Test.

6.4.1 Pooled Logit Regression Result and discussion on the Relationship between the AC Characteristics and FRQ (Income Smoothing)

This section tests the last part of objective one of the thesis, which was to determine the relationships between the AC characteristics and the FRQ (proxied by EM) of the listed companies in Nigeria. It also tests hypotheses one to nine (H1-H9) consistent

with the first condition of the mediating effect. In testing these hypotheses, the income smoothing model (IS) following Eckel (1981) and Albrecht and Richardson (1990) was adopted. The results reveal some indicators, such as the coefficient (β), robust standard error (formed using the marginal effect which measures the discrete variation or how do projected probabilities vary as the binary predictor variable changes from 0 to 1), t-values, and p-values, which were used for the purpose of the interpretations.

Table 6.7 shows the pool logit which presents the regression results of model two (A) to test the relationships between the AC and IS. Table 6.7 reveals that the ACS had a negative significant relationship with IS. This relationship was significant at 10%. It implies that larger numbers of members on the AC were better in reducing the likelihood of practicing artificial income smoothing in the listed firms in Nigeria. Thus, the lower the likelihood of IS practices, the better the FRQ will be. The results support hypothesis one (H_1) of this current study which assumed that the ACS has a positive relationship with FRQ. It also supports the resource dependence theory which recommends that the ACS seems to be highly ingenious in enhancing the FRQ because of the various skills and experiences the members share amongst themselves (Dhaliwal et al., 2010; Hillman et al., 2000). This supports the findings of prior studies which established that a larger AC size is more active in monitoring management which makes the AC to be more effective in improving the FRQ (Ben Ali, 2013; Dhaliwal et al., 2010; Fodio et al., 2013; Hillman et al., 2000; Ismail & Kamarudin, 2017; Leong et al., 2015; Miko, 2016; Setiany et al., 2017).

Furthermore, Bala and Kumai (2015) and Umar and Hassan (2017) revealed that the ACS was inversely related to the DA in Nigeria.

The next variable was audit committee independence (ACI) which showed a negative relationship with IS at a 5% significance level. This suggests that a larger percentage of outside directors in the AC decreased the probability that a firm smoothed its earnings in Nigeria. Thus, decreasing the chance of artificial IS practices and which, in turn, improves FRQ. The results are consistent with hypothesis two (H_2) of this study which anticipated a positive relationship between the ACI and FRQ. It is also in line with the signaling theory which hypothesises that accruing the existence of independent non-executive directors on the board could signal to owners that the company has a robust corporate governance which will, in the long run, promote investors' protection and thus, enhance FRQ. This supports the findings of Ben Ali (2013), Amin et al. (2018), Che-Ahmad and Mansor (2009) Huang, Zhang, Deis and Moffitt (2009), Ismail and Kamarudin, (2017) and Uzun et al. (2004) who found a negative significant relationship between outside directors in the AC and IS. More so, in Nigeria, Miko (2016) documented that AC independence was inversely associated with discretionary accruals. Whilst, Kibiya et al. (2016c) revealed that AC independence reduced managers' earnings manipulations and improved the financial reporting quality of the listed companies in Nigeria.

The ACM was revealed to have a positive significant relationship with IS. This means that the ACM increased the probability of a firm to be an income smoother in Nigeria. The results are contrary to the research expectation which hypothesised that the ACM has a positive relationship with the FRQ of the listed companies in Nigeria.

A probable explanation for this might be that high frequent consultations could lead to exhaustion and weariness, which may increase the likelihood of formulating inappropriate discussions that may result in ineffective decisions.

Table 6.7

Model Two (A) Pool Logit Regression of the Relationship between AC Characteristics and FRQ (Income Smoothing)

Variable	coefficient	Robust Std. Err.	Delta-method Mg coef. dy/dx	Delta-method Mg.Std. Err.	T-Value	P-Value
ACS	-0.277	0.145	-0.059	0.030	-1.910*	0.056
ACI	-2.785	1.210	-0.591	0.252	-2.300**	0.021
ACM	0.288	0.146	0.061	0.030	1.970**	0.048
ACFAE	1.513	0.828	0.321	0.173	1.830*	0.067
ACLE	-0.382	0.232	-0.081	0.049	-1.640*	0.100
FACM	-0.398	0.230	-0.084	0.048	-1.730*	0.084
ACSO	-0.252	0.135	-0.054	0.028	-1.880*	0.061
ACT	-0.209	0.071	-0.044	0.014	-2.970***	0.003
ACC	0.391	0.334	0.083	0.071	1.170	0.243
BI	-1.439	1.083	-0.305	0.228	-1.330	0.184
BE	2.095	0.839	0.445	0.174	2.500**	0.012
FS	0.006	0.014	0.001	0.003	0.450	0.649
LEV	-0.172	0.191	-0.036	0.040	-0.900	0.369
FAGE	0.007	0.008	0.001	0.002	0.850	0.397
SGROWTH	0.100	0.043	0.021	0.009	2.340**	0.019
CONS	2.702	1.316			2.050**	0.040
Pseudo R2			0.082			
Wald chi2			44.580			
Prob.			0.000			
Specification Test:						
Linktest (Hatsq)			0.895			
Gof Test group (9)						
Prob. chi2			63.750%			
Correctly classified			67.880%			

Note: IS = income smoothing index, ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age and SGROWTH = sales growth Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1, = significant at 1%, 5% and 10% respectively

This makes more frequent meetings to be a repetitive formality used by firms with few real accomplishments thus making corporate governance reforms become more

„form than substance“ (Yang et al., 2012). The results support the findings of Katmon and Farooque (2015) and Uzun et al. (2004) who found that AC meetings had positive significant relationships with EM, which suggests that more frequent meetings are related to higher EM. Similarly, Dabor and Dabor (2015) and Ibrahim et al. (2016) found a negative significant effect between the AC meetings and EM in Nigeria.

Surprisingly, the results of the audit committee financial accounting experts (ACFAEs) revealed a positive significant relationship with IS. It implies that the proportion of financial accounting experts on the AC increased the likelihood of a firm to be a smoother. This is contrary to the research prediction (H₄) which assumed that ACFAEs have a positive significant association with the FRQ of the listed companies in Nigeria. A probable explanation for this might be as a result of the fact that profit smoothing could be considered deceptive or informative. AC financial accounting experts might stand to view smoothness as an informative device used by management to maximise the investors' benefits, such as reducing the inclusive corporate tax, dodging debt covenant violations, and lessening agency cost (Habib, 2005; Ismail & Kamarudin, 2017). Another possible reason could be due to the fact the recent IFRS adoption in Nigeria has made accounting practices become more complex since the process involves a shift from „rule-based standards“ to “practice-based standards”. Thus, “rules-based” contain precise criteria, such as the scope limitations, exemptions, successive precedents, application guidance, amongst others. On the contrary, „principles-based standards” have to do with the basic understandings to report transactions and financial events. Hence, „principles-based”

standards may be of higher quality accounting standards, but this may not automatically convert into higher quality reporting. Consequently, ACFAEs may not have the basic understanding of this new transition since they are not aggressively involved in the practice thus, their inexperience with the practice could make them stand to be mere experts by designation rather than the effective monitors that they are meant to be.

Another possible reason for this positive relation might be that, it is likely that the AC members that are highly connected with the chief executive officer may acquire fewer audit services and be involved more in earnings manipulation (Bruynseels et al., 2015). This is evident by prior studies which established that the connectedness of chief executive officers and AC members provide a negative impact on the worthiness of the AC's oversight. This negative impact is more severe, predominantly, when chief executive officers and members of the AC are connected through companionship (Bruynseels & Cardinaels, 2014; Krishnan, Raman, Yang & Yu, 2011) Thus, this connectedness may impair their independent expertise and make them less critical about financial deception. Similarly, prior studies (Kusnadi, Leong, Suwardy & Wang, 2016; Qi & Tian, 2012) reveal a positive significant relationship between the ACFAEs and DA. However, in Nigeria, Madawaki and Amran (2013) found a positive significant relationship between the ACFAEs and DA.

Interestingly, the findings of the audit committee legal experts (ACLEs) revealed a negative significant relationship with IS. This implies that a larger percentage of legal experts in the AC decreases the likelihood of artificial IS practices by firms and

thus, enhance FRQ. This supports the prediction of the study which hypothesised (H₅) that the ACLEs have a positive significant association with the FRQ. The result is consistent with the resource dependence theory perceived by Cohen et al. (2008) who revealed that non-accounting expertise on the AC can improve the audit committee's ability to examine whether the accounting procedures correctly reflect the basic financial substance of the business activities, which will lead to a higher FRQ. This is based on the premise that legal experts in the AC act as monitors rather than ordinary signals to financial reports. Since, their legal know-how makes them be more informed about litigation and legal liability threats relating to financial reporting fraud (Krishnan et al., 2011). The results support the advocates of the illusive perspective of IS where such practice is considered as an intolerable act in reporting earnings. The results are consistent with the findings of Baxter and Cotter (2009), Krishnan et al. (2011) and Shankaraiah and Amiri (2017) who documented a negative significant relationship between the ACLEs and DA.

The next variable was the female audit committee members (FACMs) which showed a negative significant relationship with IS. This suggests that the presence of at least one female director in the AC decreases the probability that a firm will smooth its earnings. This is consistent with the research expectation (H₆) which projected that the FACMs have a positive association with FRQ. The finding is also in line with the notion that females are more risk antagonistic, vigilant, and decent than men (Gold et al., 2009). This makes them view IS as an unacceptable act or deceptive practice that distorts the quality of the financial reports. It also validates the social feminist theory which proposes that the intrinsic dissimilarity between women and men does not

translate to women being inferior to men since men and women may perhaps develop differently, but with identical effective qualities (Fischer et al.,1993). The results also support the findings of Zalata et al. (2018), Eze (2017), Ittonen et al. (2016), Lenard et al. (2017), and Sánchez et al. (2017) which show that FACMs reduce the occurrences of earnings management in the form of DA. However, Ogbaisi et al. (2016) found that the FACMs were more likely to reduce the financial reporting delay amongst the listed companies in Nigeria.

It is also observed from Table 6.7 that, the ACSO had a negative significant relationship with IS. The implication of this result is that the AC shares reduce the probability that a firm will smooth its income and, in turn, improves FRQ. The result supports hypothesis seven (H₇) of the study which conjectured that the ACSO has a positive relationship with the FRQ of the listed companies in Nigeria. It is also in line with the agency theory which proposes that the AC shares align the interests of the members of the AC with the interests of other shareholders (Vafeas, 2005; Yermack, 2004).. The results also confirm the findings of previous studies (Rose et al., 2013; Yang & Krishnan 2005) which reveal that the ACSO reduced the propensity for EM in the companies. In Nigeria, Kibiya et al. (2016b) found that the more shares the AC members possess the more watchful they will be about financial reporting issues because of the stake they have in the firm.

Table 6.7 also revealed that the audit committee tenure (ACT) had a negative significant relationship with income smoothing (IS). This suggests that long-tenured directors are more likely to decrease the artificial IS practices by the firms and accordingly enhance the FRQ. This is consistent with the research hypothesis (H₈)

which presumed that the ACT has a positive association with the FRQ of the listed companies in Nigeria. The results also confirmed the findings of the agency theory proponents who showed that the longer the directors serve on the board, the more familiar and knowledgeable they will be about the company's practices and thus, become more effective in curtailing the likelihood of financial reporting fraud (Beasley, 1996; Hermalin & Weisbach, 1991; Vafeas, 2005). Prior studies also found a negative significant influence between the ACT and earnings management (Dhaliwal et al., 2010; Firoozi et al., 2016; Jintawattanagul et al., 2016; Yang & Krishnan, 2005).

The model also recognised that the audit committee chair (ACC) had a positive insignificant relationship with IS. Thus, it implies that the chairmanship of the shareholders in the Nigerian ACC does not have any pertinent contribution in reducing the likelihood of financial fraud in the form of artificial smoothing. Thus, the result is not consistent with H₉. A possible explanation for this could be linked to the result of relationship between ACC and DA, which revealed a positive insignificant relationship. Thus, similar justification can be given as evidenced from the descriptive statistics, more than 89% of the AC chairs in Nigeria were shareholders. Consequently, the presence of shareholders in the AC may decrease their monitoring role in the decision-making process (Ahmed, 2017). This is because shareholders may be more convinced to increase their value as a result of share price increase (Sharma & Kuang, 2014).

The comparison between the projected and the actual results of the foregoing regression is presented in Table 6.8. In summary, from the nine variables tested in

the study, six variables supported the predicted hypotheses whilst the remaining three did not. In particular, from the remaining three, one variable was insignificant whilst the remaining two revealed the opposite sign with the research anticipations.

Table 6.8

Summary of the Predicted and Actual Results for on the Relationship between the AC Characteristics and Income Smoothing

HYPOTHESIS	E.Sign	A.Sign	Decision
H₁ : There is positive relationship between <i>AC Size</i> (ACS) and FRQ	-ve	-Sig.	supported
H₂ : There is positive relationship between <i>AC Independence</i> (ACI) and FRQ	-ve	-sig.	supported
H₃ : There is positive relationship between <i>AC Meetings</i> (ACM) and FRQ	-ve	+Sig.	Not Supported
H₄ : There is positive relationship between <i>AC Financial Accounting Expertise</i> (ACFAE) and FRQ	-ve	+Sig.	Not Supported
H₅ : There is positive relationship between <i>AC Legal Expert</i> (ACLE) and FRQ	-ve	-sig.	supported
H₆ : There is positive relationship between <i>Female AC</i> (FAC) and FRQ	-ve	-sig.	supported
H₇ : There is positive relationship between <i>AC Stock Ownership</i> (ACSO) and FRQ	-ve	-sig.	supported
H₈ : There is positive relationship between <i>AC Tenure</i> (ACT) and FRQ	-ve	-sig.	supported
H₉ : There is positive relationship between <i>AC Chair</i> (ACC) and FRQ	-ve	+Insig.	Not supported

Notes: E.Sign = expected sign, A.Sign = actual sign, +ve = positive, -ve = negative, +veSig = positive significant, -veSig = negative significant, +veInSig positive insignificant, -veInSig negative insignificant supported. -veSig is supported otherwise and not supported.

6.4.2 Regression Result and Discussion on the Relationship between Audit Fees and Income Smoothing

This section examines the last part of objective three of the study, which was to determine the relationship between the audit quality (proxied by AUF) and the FRQ (proxied by IS) of the listed companies in Nigeria. The section also tests hypothesis (H₁₁) to examine the third condition of the mediating effect. In this section, IS was used as the measurement for the FRQ. The results also reveal some indicators, such

as coefficient (β), robust standard error (formed using the marginal effect), t-values, and p-values, which were used for the purpose of the interpretations.

Table 6.9 presents the results of model two (d) regression one of the relationships between the audit quality (AUF) and FRQ (IS). It is revealed from Table 6.9 that, the AUF had a negative significant relationship with IS. This implies that a higher AUF decreases the likelihood of the artificial smoothing behaviour of firms and, accordingly, enhances the FRQ. This is in line with the research expectation as hypothesised by (H₁₁) that the audit quality has a positive relationship with the FRQ of the listed companies in Nigeria.

Table 6.9
Model Three (C) Regression One of the Relationship between the Audit Quality (AUF) and the FRQ (using IS)

Variable	coefficient	Robust Std. Err.	Delta-method Mg coef. dy/dx	Delta-method Mg.Std. Err.	T-Value	P-Value
AUF	-0.291	0.098	-0.065	0.021	-2.970***	0.003
BI	-1.743	0.889	-0.388	0.195	-1.960**	0.050
BE	2.673	0.722	0.595	0.151	3.700***	0.000
FS	0.007	0.016	0.002	0.004	0.440	0.659
LEV	-0.173	0.173	-0.039	0.038	-1.000	0.315
FAGE	0.011	0.007	0.003	0.002	1.560	0.119
SGROWTH	0.109	0.041	0.024	0.009	2.640***	0.008
Cons	2.773	1.094			2.530**	0.011
Pseudo R2			0.046			
Wald chi2			24.890			
Prob.			0.000			
Specification Test:						
Linktest (Hatsq)			0.924			
Gof Test group(9)						
Prob. chi2			0.5015			
Correctly classified			64.770%			

Note: IS = Income smoothing index, AUF= Audit fees, BI = board independence, BE = board expertise, FS = firm size LEV = leverage FAGE = firm age and SGROWTH = sales growth *** p<0.01, ** p<0.05, * p<0.1. = significant at 1%, 5% and 10% respectively

The findings also validate the agency theory which proposes that auditing financial reports is recognised as a means to decrease agency cost. This is not astonishing as it is evident that a higher AUF is associated with better audit efforts, less litigation, and greater assurance. It also interprets that auditing financial reports is renowned as a means to cut agency cost and thus, a high audit fee is accredited to lower earnings management and a higher FRQ.

The results corroborate the findings of previous studies which have documented that companies that purchased higher audit quality were less likely to engage in earnings management (Bruynseels & Cardinaels, 2014; Cohen et al., 2007; Franke et al., 2002; Hoitash et al., 2007; Carmona et al., 2015). Thus, they found a negative significant association between audit fees and DA. Moreover, Abdul Malik and Che-Ahmad (2016) and Abdul-Rahman et al. (2017) documented that audit fees had a positive significant association with the FRQ of the listed firms in Nigeria.

6.4.3 Regression Result and Discussion on the Relationship between the BIG 4 Auditors and Income Smoothing

This section also examines the last part of objective three of the study which was to examine the relationship between the audit quality and the FRQ of the listed companies in Nigeria. The section also tests hypothesis (H₁₁). The results reveal some indicators, such as the coefficient (β), robust standard error (formed using the marginal effect), t-values, and p-values which were used for the purpose of the interpretations.

Table 6.10 presents the results of model two (D) Regression two of the relationships between the audit quality (BIG 4) and FRQ (IS). It is observed from Table 6.10 that BIG 4 firms were revealed to have a positive significant relationship with IS. This means that BIG 4 auditors increased the likelihood of firms artificially smoothing their incomes. The results also suggested that Non-BIG 4 auditors were more probable to decrease the IS behaviour of the listed companies in Nigeria. This contradicts the study's expectation of (H₁₁) which assumed that the audit quality has a positive significant relationship with the FRQ. A possible explanation for this is that it is observed from the descriptive statistics that a substantial number of the sample firms were audited by the BIG 4 auditors who may have less information of the local markets compared to the Non-BIG 4 auditors (Carey & Simnett, 2006). This could possibly create a vacuum as the Non-BIG 4 auditors may have greater knowledge of the local markets and better relations with their clients. These reasons may enable the Non-BIG 4 auditors to better recognise irregularities in the companies.

Another probable justification may be that the tenure of the external auditors provided by the SEC CCG (2011) may be considered too extensive as it establishes that external auditors should be engaged for no longer than ten years. Thus, exceptionally prolonged external auditors' tenures might impair their independence since the more extensive their stay as the auditors of the same entity, the more probable it is for them to be networking with the management, thus becoming less critical of the accounting issues.

Table 6.10

Model Two (D) Regression Two of the Relationship between the BIG4 Auditors and FRQ (Income Smoothing)

Variable	Coefficient	Robust Std. Err.	T-Value	P-Value
BIG4	0.374	0.209	1.790**	0.073
BI	-2.205	0.939	-2.350**	0.019
BE	2.622	0.800	3.280***	0.001
FS	-0.166	0.067	-2.470**	0.014
LEV	-0.177	0.161	-1.100	0.270
FAGE	0.008	0.008	1.080	0.279
SGROWTH	0.097	0.041	2.360**	0.018
Cons	3.049	1.303	2.340**	0.019
Pseudo R ²		0.043		
Wald chi2		24.270		
Prob.		0.001		
Specification Test:				
Linktest (Hatsq)		0.505		
Gof Test group (9)				
Prob.		0.1944		
Correctly classified		65.230%		

Note: IS = Income smoothing index, BIG4 = Big 4 auditors, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age and SGROWTH = sales growth *** p<0.01, ** p<0.05, * p<0.1. = significant at 1%, 5% and 10% respectively

Similar results were documented by Bruynseels & Cardinaels (2014); Huang et al. (2009); and Yaşar (2013) who found a positive relationship between BIG 4 auditors and DA. Similarly, in Nigeria, Ozili (2017) found that banks which were audited by the BIG 4 auditors were more likely to smooth their reported earnings than the banks that were audited by the Non-BIG 4 firms.

The comparison between the predicted and the actual findings of the aforementioned regressions are presented in Table 6.11. Generally, from the two variables tested in these models, one variable (AUF) is consistent with the predicted hypotheses whilst the remaining one discloses the opposite sign with the research expectation.

Table 6. 11

Results of the Predicted Hypothesis on the Relationship between the Audit Fees and Income Smoothing

HYPOTHESIS (H₁₁)	E.Sign	A.Sign	Decision
H_{11a} : There is positive relationship between AUQ (using AUF) and FRQ (using IS)	-	-sig	Supported
H_{11b} : There is positive relationship between AUQ (using BIG4) and FRQ (using IS)	-	+insig	Not Supported

Notes: E.Sign = expected sign, A.Sign = actual sign, +ve = positive, -ve = negative, +veSig = positive significant, -veSig = negative significant, +veInSig positive insignificant, -veInSig negative insignificant supported. -veSig is supported otherwise and not supported.

6.4.4 Mediating Effect of Audit Fees on the Relationship between the AC Characteristics and Income Smoothing

This section examines the last part of objective four of the study which was to determine the mediating effect of the audit quality (AUF) on the relationship between the AC characteristics and the FRQ (IS) of the listed companies in Nigeria. The section also tests the last hypothesis of the study (H₁₂) which aims at examining the last condition of the mediating effect. Thus, the hypothesis was tested only on the variables that met the first three conditions of mediation under Baron and Kenny (1986) as highlighted in the previous chapter. Recall that two mediators were employed by the study as proxies for audit quality (AUF and BIG 4). Like in the previous chapter, the meditational model is tabulated in this section using AUF only since the BIG 4 model did not meet the third condition (the relationship between the BIG 4 auditors and IS was positively significant, signifying the opposite sign to the research prediction).

Similar to the previous chapter, the Sobel Test was applied to examine the significance of the mediation on any AC variable that satisfied all four conditions of mediation. In that, the income smoothing index using Eckel Model (1981) and Albrecht and Richardson (1990) was employed. The results from Table 6.12 reveal

some indicators, such as the coefficient (β), robust standard error (formed using the marginal effect which measures the discrete variation or how do projected probabilities vary as the binary predictor variable changes from 0 to 1). This was done to enable the study to determine whether the impact of the independent variable (βx) on the outcome variable Y should be less in absolute terms in the mediational model compared to the impact of the independent variable (βx) in the direct model. T-values and p-values were also extracted for the purpose of the interpretations.

Table 6.12 presents the regression results of model 2 (D) of the mediating effect of audit quality (AUF) on the relationships between the AC characteristics and the FRQ (IS). This is based on the belief that the AC attributes increase the AUF to demand greater audit assurance and, in turn, the successive increase in the AUF is expected to enhance the FRQ. Thus, these relationships are expected to be as follows: i) AC characteristics have negative relationships with IS, ii) AC characteristics have positive relationships with AUF, iii) AUF has a negative relationship with IS, and iv) AUF mediates the relationships between the AC characteristics and the FRQ.

Considering the first condition of the ACS and FRQ (IS), this relationship was found to be consistent with the hypothesis, as it was revealed to have a negative significant relationship with IS ($\beta = -0.059$, $p < 0.056$). Regarding the second condition of the ACS and AUF, it is also in line with the hypothesis as it revealed a positive significant relationship with the AUF ($\beta = 0.392$, $p < 0.000$). The third condition of the AUF and IS was also consistent with the hypothesis as the result showed a beta coefficient and p-value of ($\beta = -0.065$ and 0.003), respectively. For the last condition, Table 6.12 reveals that the ACS had a lower beta coefficient of ($\beta = -0.031$) compared

to the direct model of ($\beta = -0.059$). This implies that the influence of the independent variable (βx) on the dependent variable, Y, in the mediational model was less in absolute terms compared to the effect in the direct model. This recommends that all the conditions of the Causal steps method were met. Thus, it implies that the AUF partially mediated the relationship between the ACS and the FRQ (IS) of the listed companies in Nigeria. The mediation was partial because the AUF did not decrease the effect of the ACS on IS to insignificance. To further justify this result, the Sobel test was computed to determine whether the mediation was significant.



Table 6.12*Model One (D) of the Mediating Effect of Audit Fees on the Relationship between AC characteristics and FRQ (Income Smoothing)*

Variable	Direct Model Delta-method Mg coef. dy/dx (First Condition)	Direct Model p-Val.	AC & AUF Model (Second Condition)	AC & AUF Model P-Val.	AUF & FRQ (IS) Model (Third Condition)	AUF & FRQ Model P-Val.	Mediated Model Delta-method Mg coef. (Fourth Condition)	Mediation Model P-val.
ACS	-0.059	0.056	0.392	0.000			-0.031	0.382
ACI	-0.591	0.021	0.350	0.373			-0.543	0.032
ACM	0.061	0.048	0.018	0.794			0.060	0.054
ACFAE	0.321	0.067	0.532	0.055			0.351	0.046
ACLE	-0.081	0.100	0.789	0.043			-0.078	0.112
FACM	-0.084	0.084	-0.163	0.035			-0.094	0.055
ACSO	-0.054	0.061	0.043	0.000			-0.052	0.087
ACT	-0.044	0.003	0.002	0.948			-0.043	0.004
ACC	0.083	0.243	-0.651	0.000			0.057	0.417
BI	-0.305	0.184	0.760	0.030	-0.388		-0.281	0.216
BE	0.445	0.012	1.011	0.000	0.595		0.510	0.005
FS	0.001	0.649	0.372	0.000	0.002		0.003	0.422
LEV	-0.036	0.369	0.013	0.792	-0.039		-0.037	0.355
FAGE	0.001	0.397	0.005	0.087	0.003		0.002	0.286
SGROWTH	0.021	0.019	0.036	0.014	0.024		0.022	0.014
AUF					-0.065	0.003	-0.041	0.105
Cons	2.969	0.040	0.086	0.460	-0.006	0.787		0.016
Pseudo R2			46.480					
Wald chi2			0.000					

Table 6.12 Continued

Prob.	0.000
Specification Test:	
Linktest (Hatsq)	0.652
Gof Test group(9)	
Prob. chi2	0.5723
Correctly classified	67.430%

Note: *IS* = Income smoothing index, *ACS* = AC size, *ACI* = AC independence, *ACM* = AC meetings, *ACFAE* = AC financial expertise, *ACLE* = AC legal expert, *FACM* = female AC member, *ACSO* = AC stock ownership, *ACT* = AC tenure, *ACC* = AC chair, *BI* = board independence, *BE* = board expertise, *FS* = firm size *LEV* = leverage, *FAGE* = firm age, *SGROWTH* = sales growth and *AUF* = audit fees *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.



The results from the Sobel test, as depicted in Table 6.13, reveal a t-value and p-value of (t= -2.834 and 0.005), respectively.

Table 6.13

Sobel Test: Mediating Effect of Audit Fees on the Relationship between AC Size and Income Smoothing

Inputs		$\frac{S_b * S_c}{\sqrt{(\beta_c^2 * S_c^2) + (\beta_b^2 * S_b^2)}}$		
β_c (a)	Test Statistics		Standard Errors	P-Values
-0.0648304				
β_c (b)	Sobel test	-2.8342108***	0.00896934	0.0045939
.3921153				
Sb (Sa)	Aroian test	-2.8125131***	0.00903853	0.0049156
.0211432				
Sc (Sb)	Goodman test	-2.8564186***	0.0088996	0.0042845
.0527959				

Note: β_c = Unstandardized parameter of the relationship between the mediator and outcome variable, β_b = Unstandardized parameter of the relationship between the independent and mediator, Sb = Standard residual of mediator, Sc = Standard residual of predictor variable. *** p<0.01, ** p<0.05, * p<0.1. = significant at 1%, 5% and 10% respectively

This substantiates that the results obtained from the causal steps method were free from false negative conclusions and thus, this implies that the AUF partially and significantly mediated the relationship between the ACS and the FRQ of the listed companies in Nigeria. The insinuation of these findings are that the AUF decreases the influence of the ACS on the FRQ (IS). Hence, the findings support the hypothesis (H₁₂) of the study which presumed that the AUF mediates the relationship between the ACS and the FRQ of the listed companies in Nigeria. The results also provide the causal effect of the complementary hypothesis of the audit quality which proposes that the AC needs greater assurance from the external auditors to guarantee the effective oversight of the financial reports, and to safeguard their capital reputations (Boo & Sharma, 2008; Cohen et al., 2002; Marini et al., 2016). This supports the institutional theory which suggests that integrating the AC to work with external

auditors will enhance the monitoring of the financial reporting process. This is because the AC is reflected to be a formal assembly that is engaged by an organisation in a ceremonial way, but the actual monitoring of an organisation is determined by other external factors, for example, the external auditors in this context. This conjecture is popularly known as "decoupling" (Escobar & Demeritt, 2017; Baker et al., 2014; Fourcade & Savelsberg, 2006).

Another important AC attribute used by the study was the audit committee independence (ACI); in view of the first condition of the ACI and FRQ (IS), it had a negative significant relationship with IS ($\beta = -2.785$, $p < 0.021$). This is consistent with the research hypothesis (H_2). As regards the second condition of the ACI and AUF, the result was not in line with the research hypothesis since it revealed a positive insignificant relationship with the AUF ($\beta = 0.350$, $p < 0.373$). However, the third condition of the AUF and IS was in line with the research hypothesis as the results showed a beta coefficient and p-value of ($\beta = -0.291$ and 0.002), respectively. Consequently, the last condition, could not be accessed since condition two was not satisfied. Therefore, the mediating effect of the ACI through the AUF on the IS was not supported by the results.

The next AC characteristic used in this present study was the audit committee meetings (ACMs). With reference to the first condition of the ACMs and the FRQ (IS), the results are contrary to the research hypothesis (H_3) as it was revealed to have a positive significant association ($\beta = 0.288$, $p < 0.048$). Relating to the next condition of the ACMs and AUF, it had a positive and insignificant relationship with the AUF ($\beta = 0.018$, $p < 0.794$), hence, it did not support the research hypothesis

(H_{10c}). Although, the third condition of the AUF and IS was fulfilled. The last condition could not be observed since only condition three was satisfied. Thus, the mediating effect of the ACMs through the AUF on the IS was not supported by the results.

Audit committee financial accounting experts (ACFAEs) was another vital AC characteristic employed by the study. After examining the first condition, which was ACFAEs and FRQ (IS), the result showed a positive significant relationship with IS ($\beta = 0.321, p < 0.067$). This is contrary to the research hypothesis (H₄). The second condition revealed that the ACFAEs had a positive significant relationship with the AUF ($\beta = 0.532, p < 0.055$) and it is consistent with the research hypothesis (H_{10d}). The third condition is also consistent with the research hypothesis (H₁₁) as the results showed a beta coefficient and p-value of ($\beta = -0.065$ and 0.002), respectively. The last condition, showed that the ACFAEs had disclosed a higher beta coefficient of ($\beta = 0.351$) in the mediation model compared to the one obtained from the direct model of ($\beta = 0.321$), concluding that the effect of the independent variable (β_x) on the dependent variable Y in the direct model was high in absolute term. Thus, the mediating effect of the ACFAEs through the AUF on the IS was not supported by the sequence of the results.

The next variable was the audit committee legal experts (ACLEs), recalling the first condition of the ACLEs and FRQ (IS), the results reveal a negative significant relationship with the regression coefficient and p-value of ($\beta = -0.081, p < 0.100$), respectively. Consequently, it is consistent with the research hypothesis (H₅). The second condition of the ACLEs and AUF was also in line with the research

hypothesis (H_{10e}) as it showed a positive significant relationship ($\beta = 0.789$, $p < 0.043$). Regarding the third condition of the AUF and IS, the results disclose a beta coefficient and p-value of ($\beta = -0.065$ and 0.003), respectively. Finally, the fourth condition was accessible since all of the above three conditions of the causal steps method were fulfilled. Interestingly, the fourth condition, which was the effect of the ACLEs, has been revealed to have a lower beta coefficient of ($\beta = -0.078$) in the mediation model as against ($\beta = -0.081$) in the direct model, concluding that the effect of the predictor variable (βx) on the outcome variable Y in the direct model is less in absolute terms compared to the effect in the mediation model. Thus, it suggests that the AUF partially mediated the relationship between the ACLEs and the FRQ of the listed companies in Nigeria.

A possible explanation for the above results could be as a result of the fact that it is evident that the majority of the AC legal experts in Nigeria do not have accounting expertise or experience. Thus, mechanisms through which the legal experts can help enhance FRQ can be indirect, for instance, through inquiry and interrogation, or through ensuring the hiring of competent and sufficient management personnel (Krishnan et al., 2011). This is because legal directors are sensitive to the litigation risk associated with FRQ (Krishnan et al., 2011). Then they could hire better auditors and pay them hire audit fees to oversee the financial reporting process which in returns enhanced FRQ.

Furthermore, to confirm the result of the causal steps method, the Sobel test was also conducted to determine whether the mediation effect was significant. The results

from the Sobel test, as depicted in Table 6.14, reveals a t-value and p-value of (t = -1.691 and 0.090), respectively.

Table 6.14

Sobel Test: Mediating Effect of the Audit Fees on the Relationship between AC Legal Expert and Income Smoothing

Inputs		$\frac{S_b * S_c}{\sqrt{(\beta_c^2 * S_c^2) + (\beta_b^2 * S_b^2)}}$		
β_c (a)	Test Statistics	T-value	Standard Errors	P-Values
-0.0648304	Sobel test	-1.69124516*	0.03024403	0.09078999
.7889829	Aroian test	-1.63193829	0.03134314	0.10269249
.0211432	Goodman test	-1.75752649*	0.02910345	0.07882811

Note: β_c = Unstandardized parameter of the relationship between the mediator and outcome variable, β_b = Unstandardized parameter of the relationship between the independent and mediator, S_b = Standard residual of mediator, S_c = Standard residual of predictor variable. *** p<0.01, ** p<0.05, * p<0.1. = significant at 1%, 5% and 10% respectively

This implies that the AUF partially and significantly mediated the relationship between the ACLEs and the FRQ of the listed companies in Nigeria. The consequence of this result is that the excessive AUF paid to the external auditors in the listed companies in Nigeria significantly complement the oversight function of the ACLEs on the IS practices.

The results also imply that, when the responsibility of the external auditors to examine the accounts and the oversight function of the ACLEs are put together, they may have a greater effect on the managers' use of flexible accounting choices to artificially smooth income. Hence, the finding supports the hypothesis (H₁₂) of the study which predicted that the AUF mediates the relationship between the AC characteristic (ACLEs) and the FRQ (IS) of the listed companies in Nigeria. The

findings also provide an insight on the causal effect of the complementary hypothesis of the audit quality from the institutional theory perspectives which suggests that the experts on the AC support a greater increase in the AUF for better audit assurance. Those experts allow the AC members to better recognise the auditing issues, risks, and litigation, and how to address them (Cohen et al., 2014). The results also confirm the findings of prior studies which documented that the ACLEs are more informed on legal liability threats, and their legal backgrounds require them to be more watchful of such threats (Baxter & Cotter, 2009; Krishnan et al., 2011).

With reference to female audit committee members (FACMs), the first condition of the FACMs and FRQ revealed a negative significant relationship with IS ($\beta = -0.084$, $p < 0.084$). Thus, the results support the research hypothesis (H_6). On the second condition of the FACMs and AUF, the results are not in line with the research hypothesis (H_{10f}) since it reveals the opposite sign that, there was a negative significant relationship with the AUF ($\beta = -0.163$, $p < 0.035$). As for the third condition of the AUF and IS, it was consistent with the research hypothesis showing a beta coefficient of -0.065 and p-value of 0.002 , respectively. Consequently, the fourth condition could not be attained since, from the foregoing Causal steps method, condition two was not supported. Henceforth, the FACMs fulfilled two conditions instead of three; therefore, the mediating effect of the FACMs through the AUF on IS was not supported by the above results.

Next was the audit committee stock ownership (ACSO), which revealed the following results. On the first condition of the ACSO and FRQ, the result disclosed a negative significant relationship with IS ($\beta = -0.054$, $p < 0.061$). The results support

research hypothesis (H₇). With respect to the second condition, the ACSO and the AUF were also in line with the research hypothesis (H_{10g}) because it was revealed to have a positive significant relationship with the AUF ($\beta = 0.012$, $p < 0.000$). The next condition of the AUF and IS is also consistent with the research hypothesis (H₁₁) since the results reveal a regression coefficient and p-value of ($\beta = -0.065$ and 0.002), respectively. Finally, the fourth condition revealed that the impact of the ACSO has shown a lower beta coefficient of ($\beta = 0.052$) in the mediation model in contrast to ($\beta = -0.054$) in the direct model, confirming that the impact of the predictor variable (βx) on the outcome variable Y in the direct model was less in absolute terms compared to the effect in the mediation model. Hence, it suggests that the AUF partially mediated the relationship between the ACSO and the FRQ (IS) of the listed companies in Nigeria.

Moreover, to examine whether the above sequence of regressions were free from false positive and false negative conclusions, the Sobel test was performed to test whether the mediation was significant or not. Interestingly, the results from the Sobel test, as represented in Table 6.15, disclose a t-value and p-value of ($t = -2.328$ and 0.020), respectively.

This confirms that the AUF significantly mediated the relationship between the ACSO and the FRQ (IS) of the listed companies in Nigeria. The implication of this result shows that the AUF reduced the impact of the ACSO on the FRQ (IS). Thus, the result supports the hypothesis (H₁₂) of the study which assumed that the AUF mediated the relationship between the ACSO and the FRQ of the listed companies in Nigeria. The result also provides a causal effect of the AC and the audit quality thus,

establishing that the ACSO functions as a monitor by requiring higher audit quality in exchange for greater audit efforts.

Table 6.15

Sobel Test: Mediating Effect of the Audit Fees on the Relationship between AC Stock Ownership and Income Smoothing

Inputs		$S_b * S_c = \frac{S_b * S_c}{\sqrt{(\beta_c^2 * S_c^2) + (\beta_b^2 * S_c^2)}}$		
β_c (a)	Test Statistics	Standard Errors	P-Values	
-0.0648304				
β_c (b)	Sobel test	-2.32760026**	0.0000000	0.01993334
1.23e-10				
Sb (Sa)	Aroian test	-2.27685450**	0.0000000	0.02279492
.0211432				
Sc (Sb)	Goodman test	-2.38189767**	0.0000000	0.01722368
3.44e-11				

Note: β_c = Unstandardized parameter of the relationship between the mediator and outcome variable, β_b = Unstandardized parameter of the relationship between the independent and mediator, S_b = Standard residual of mediator, S_c = Standard residual of predictor variable. *** p<0.01, ** p<0.05, * p<0.1. = significant at 1%, 5% and 10% respectively

The findings also support the agency theory which advocates that the demand for independent external auditors ascends from a desire to lower the management's deceptive behaviours that result from the asymmetric information between the stockholders and the managers (Jensen & Meckling, 1976; Menon & Williams 1994). Prior studies have also documented that a larger proportion of ACSO reduces DA and is inversely and significantly associated with the probability that the auditor suggests a going-concern report for financially distressed firms and auditor dismissals (Bronson et al., 2009; Carcello & Neal, 2003; Hamdan et al., 2013; Vafeas, 2005).

Audit committee tenure (ACT) was the next variable of consideration. To start with the first condition, which was the ACT and FRQ, it had a negative significant

relationship with IS ($\beta = -0.044$, $p < 0.003$). Thus, the results support research hypothesis (H_8). On the second condition of the ACT and AUF, the results are contrary to research hypothesis (H_{10h}) since it reveals an insignificant relationship ($\beta = 0.022$, $p < 0.511$). Although the third condition was fulfilled, it showed a regression coefficient and p-value of ($\beta = -0.065$ and 0.002), respectively; so the fourth condition could not be accomplished because, from the aforementioned Causal steps, condition two was not supported. For that reason, the mediating effect of the ACT through the AUF on the IS was not supported by the above findings.

Lastly, the results of the Audit committee chair (ACC) and the FRQ, from the first condition, reveal a positive insignificant relationship with IS ($\beta = 0.083$, $p < 0.243$). Equally, the results do not support research hypothesis (H_9). The second condition of the ACC and the AUF was also not in line with research hypothesis (H_{10i}) since it revealed the opposite sign ($\beta = -0.651$, $p < 0.000$). The third condition was fulfilled as disclosed by the beta coefficient and p-value of ($\beta = -0.198$ and 0.002), respectively. Going by these results, the fourth condition could not be achieved since condition two was not supported. Henceforward, the mediating effect of the ACC through the AUF on the IS was not supported by the above results.

The comparison between the expected and the actual findings of the mediating effect of the AUF on the relationships between the AC characteristics and the FRQ (IS) are presented in Table 6.16.

Table 6.16

Summary of the Predicted and Actual Results for the Mediating Effect of the Audit Fees on the Relationship between the AC Characteristics and Income Smoothing

HYPOTHESIS	Type of Med.	Decision
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Size</i> (ACS) and FRQ (IS)	P.Mediated	Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Independence</i> (ACI) and FRQ (IS)	Not Mediated	Not Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Meetings</i> (ACM) and FRQ (IS)	Not Mediated	Not Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Financial Accounting Expertise</i> (ACFAE) and FRQ (IS)	Not Mediated	Not Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Legal Expert</i> (ACLE) and FRQ (IS)	P.Mediated	Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>Female AC</i> (FACM) and FRQ (IS)	Not Mediated	Not Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Stock Ownership</i> (ACSO) and FRQ (IS)	P.Mediated	Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Tenure</i> (ACT) and FRQ (IS)	Not Mediated	Not Supported
H₁₂ : AUQ (AUF) mediates the relationship between <i>AC Chair</i> (ACC) and FRQ (IS)	Not Mediated	Not Supported

Notes: E.Sign = expected sign, A.Sign = actual sign, +ve = positive, -ve = negative, +vesig = positive significant, -vesig = negative significant, +veinsig = positive insignificant, -veinsig = negative insignificant, supported, -vesig is supported otherwise and not supported, P.Mediated = partially mediated.

In general, from the nine variables tested in this mediation model, three variables supported the predicted hypotheses whilst the remaining six did not. Precisely, three variables were consistent with the condition of mediation whilst the remaining variables were not.

6.5 Robustness Check

To assess the robustness of the results and to ensure that the findings were not sensitive to alternative measurements and the selection of the outcome variable, robustness tests were conducted. The following provides the results for the sensitivity checks employed by the study.

6.5.1 Alternative Measurements of the Independent Variables

This section provides alternative measurements for the predictor variables of the study. The alternative measurements were designated as additional sensitivity checks. Recall that seven independent variables were measured as continuous variables in the main analysis, these included the ACS, ACI, ACMs, ACFAEs, ACLEs and ACT. Following Krishnan et al. (2011), Xie et al. (2003), Yasin and Nelson (2012) and Zhang et al. (2007), in this additional analysis, the continuous variables were re-measured as dummy variables. The FACMs^{cc} variable was re-measured from the dummy to the continuous variable. ACSO was re-measured from the units of shares possessed by the AC members to the percentage of the AC shares (units of AC divided by total number of shares outstanding to the firm).

Table 6.17 presents the main and alternative estimates for the robustness test. From Table 6.17, it is inferred that the signs and the coefficients of the main models (both direct and mediated models) are considerably similar to those of the robustness checks. The only notable variation observed was in the ACS which revealed a negative insignificant relation with the IS in the robustness checks, but it showed a negative significant association in the main models. Another insensitive change was revealed in the ACMs and the ACT as their levels of significance reduced from 5% to 10% and 1% to 10%, respectively, in the additional analysis (direct model only). On the contrary, the ACFAEs, FACMs, and the ACSO revealed a slight increase from 10% to 5% significance levels in the direct alternative model.

Table 6.17
Result for the Alternative Measure of the Independent Variables

Variable	(1) Main Model (Direct)	(2) Alternative Model (Direct)	(3) Main Model (Mediated)	(4) Alternative Model (Mediated)
ACS	-0.277* (0.145)	-0.324 (0.269)	-0.145 (0.166)	-0.00347 (0.305)
ACI	-2.785** (1.210)	-2.819** (1.216)	-2.576** (1.202)	-2.536** (1.210)
ACM	0.288** (0.146)	0.615* (0.352)	0.284* (0.147)	0.651* (0.340)
ACFAE	1.513* (0.828)	0.677** (0.310)	1.666** (0.834)	0.736** (0.311)
ACLE	-0.382* (0.232)	-0.451* (0.240)	-0.368 (0.232)	-0.442* (0.241)
FACM	-0.398* (0.230)	-2.355** (1.061)	-0.444* (0.231)	-2.632** (1.074)
ACSO	-0.153* (0.028)	-0.197** (0.0939)	-0.152* (0.031)	-0.189* (0.100)
ACT	-0.209*** (0.0705)	-0.378* (0.212)	-0.203*** (0.0703)	-0.368* (0.213)
ACC	0.391 (0.334)	0.502 (0.349)	0.271 (0.333)	0.355 (0.343)
BI	-1.439 (1.083)	-1.757 (1.100)	-1.335 (1.080)	-1.637 (1.095)
BE	2.095** (0.839)	1.896** (0.850)	2.421*** (0.871)	2.310*** (0.882)
FS	0.00638 (0.0140)	0.00321 (0.0143)	0.0128 (0.0159)	0.0104 (0.0154)
LEV	-0.172 (0.191)	-0.175 (0.185)	-0.176 (0.191)	-0.183 (0.184)
FAGE	0.00691 (0.00816)	0.00681 (0.00813)	0.00887 (0.00832)	0.00953 (0.00832)
SGROWTH	0.0999** (0.0428)	0.0962** (0.0431)	0.105** (0.0427)	0.103** (0.0432)
AUF			-0.195 (0.120)	-0.252** (0.116)
Constant	2.702** (1.316)	1.588 (1.051)	3.437** (1.423)	3.257** (1.350)
Observations	440	440	440	440
R2	0.082	0.076	0.086	0.085

Note: IS= income smoothing index, ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age, SGROWTH = sales growth and AUF = audit fees, Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1. = significant at 1%, 5% and 10% respectively.

6.5.2 Alternative Measurements of the Dependent Variables

This section offers an alternative measurement of the dependent variable of the study. The alternative measurement was opted as another robustness check. In the main analysis, the Eckel model, using the coefficient variation of a change in income (Net income) divided by the coefficient variation of a change in sales, was used. Following Albrecht and Richardson (1990), Ashari et al. (1994), Habib (2005), Michelson et al. (1995) and Young (2012), the study employed operating income (OPI) in addition to net income as alternative measurements of the IS. They defined the operating income as the operating income from sales minus the cost of goods sold and the operational cost, excluding depreciation and amortisation.

Table 6.18 presents the main and alternative results for the robustness checks. It is evident from Table 6.18 that the signs and the regression coefficients of the main models (both direct and mediated) are substantially similar to those of the robustness checks. It is manifest that the only major difference was disclosed in the ACS, though the sign remained the same, which was negatively and significantly related to the IS in the main model, but there was a chance for an insignificant relation in the sensitivity checks. Similarly, the sign of the ACFAEs also remained the same, but turned to a positive insignificant relation in the additional analysis. The ACI showed a decrease in the confidence interval from 5% to 10% in the mediated alternative models. In contrast, the ACMs revealed an increase in the level of significance from 5% to 1% in the direct alternative models and from 10% to 1% in the mediated alternative models.

Table 6.18*Result for the Alternative Measure of the Dependent Variables*

VARIABLES	(1) Main Model (Direct)	(2) Alternative Model (Direct)	(3) Main Model (Mediated)	(4) Alternative Model (Mediated)
ACS	-0.277* (0.145)	-0.150 (0.142)	-0.145 (0.166)	-0.0329 (0.163)
ACI	-2.785** (1.210)	-2.383** (1.183)	-2.576** (1.202)	-2.188* (1.176)
ACM	0.288** (0.146)	0.453*** (0.138)	0.284* (0.147)	0.452*** (0.140)
ACFAE	1.513* (0.828)	0.586 (0.813)	1.666** (0.834)	0.715 (0.813)
ACLE	-0.382* (0.232)	-0.384* (0.233)	-0.368 (0.232)	-0.372 (0.232)
FACM	-0.398* (0.230)	-0.388* (0.234)	-0.444* (0.231)	-0.428* (0.235)
ACSO	-0.153* (0.028)	-0.249* (0.140)	-0.052* (0.031)	-0.249* (0.151)
ACT	-0.209*** (0.0705)	-0.180** (0.0706)	-0.203*** (0.0703)	-0.174** (0.0705)
ACC	0.391 (0.334)	0.407 (0.337)	0.271 (0.333)	0.306 (0.342)
BI	-1.439 (1.083)	-0.449 (1.098)	-1.335 (1.080)	-0.356 (1.104)
BE	2.095** (0.839)	1.904** (0.854)	2.421*** (0.871)	2.181** (0.888)
FS	0.00638 (0.0140)	0.00258 (0.0143)	0.0128 (0.0159)	0.00585 (0.0138)
LEV	-0.172 (0.191)	-0.120 (0.175)	-0.176 (0.191)	-0.123 (0.173)
FAGE	0.00691 (0.00816)	0.0127 (0.00818)	0.00887 (0.00832)	0.0145* (0.00840)
SGROWTH	0.0999** (0.0428)	0.128*** (0.0427)	0.105** (0.0427)	0.132*** (0.0426)
AUF			-0.195 (0.120)	-0.168 (0.121)
Constant	2.702** (1.316)	0.595 (1.295)	3.437** (1.423)	1.226 (1.378)
Observations	440	440	440	440
R2	0.082	0.079	0.086	0.081

Note: IS= income smoothing index, ACS = AC size, ACI = AC independence, ACM = AC meetings, ACFAE = AC financial expertise, ACLE = AC legal expert, FACM = female AC member, ACSO = AC stock ownership, ACT = AC tenure, ACC = AC chair, BI = board independence, BE = board expertise, FS = firm size LEV = leverage, FAGE = firm age, SGROWTH = sales growth and AUF = audit fees, Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1. = significant at 1%, 5% and 10% respectively.

6.6 Summary of the Chapter

This chapter presented the results that answered the last section of questions, one to four, of the thesis, which were: 1) Do the audit committee characteristics influence the FRQ (IS) of the listed companies in Nigeria?, 2) Do the audit committee characteristics influence the audit quality (AUF and BIG 4) of the listed companies in Nigeria?, 3) Does the audit quality affect the FRQ of the listed companies in Nigeria?, and 4) Does the audit quality mediate the relationships between the AC characteristics and the FRQ of the listed companies in Nigeria?

The chapter also presented detailed analyses and the interrelations of the sequence of regressions that addressed the mediation process using the causal steps method and the Sobel test. The first process was set to examine the relationship between the independent variables (AC characteristics) and the dependent variable, FRQ (proxied by the IS). The next process was to test the association between the independent variables and the mediator, audit quality (proxied by the AUF and BIG 4), which consisted of two regression estimations. Another step in the process was examining the association between the audit quality and the FRQ. This also involved two regression equations. Lastly, the mediating effect of the audit quality on the relationships between the AC characteristics and the FRQ was accessed. This also involved two regression estimations, but it was subject to fulfillment of the conditions of mediation as recommended by Baron and Kenny (1986), Sobel (1982), and Hayes and Rockwood (2017). Consequently, only the first mediator of the AUF was considered whilst the second mediator (BIG 4) did not meet the criterion like in the previous chapter.

The findings of the first process (the relationship between the AC characteristics and IS) recognised that the ACS, ACI, ACLEs, FACMs, ACSO, and ACT reduced the likelihood of the artificial IS behaviour practiced by firms in Nigeria. Thus, these findings support H₁, H₂, H₄, H₅, H₆, and H₇ as predicted by the study. The study also confirmed that the ACMs, ACFAEs, and ACC did not meaningfully contribute in decreasing the probability of the IS practices in the listed companies in Nigeria. In view of the second process (the relationships between the AC characteristics and audit quality), the study provides evidence that the ACS, ACFAEs, ACLEs, and ACSO functioned in a complimentary way with the audit quality by raising the AUF for greater audit assurance. In contrast, the FACMs and ACC showed evidence of a substitutional effect of giving greater commitment to the AC in order to decrease the audit effort. Whilst the ACI did not establish any meaningful contribution in the determination of the audit price in Nigeria.

The findings from the third condition of mediation (the relationship between the audit quality and FRQ) recognised that increasing the AUF was associated with a lower likelihood of the smoothing behaviour, thus supporting the predicted hypothesis. Finally, the last analysis was performed to examine the mediating effect of the audit quality on the relationships between the AC characteristics and the FRQ (IS). From the two mediators (AUF and BIG 4), only the AUF fulfilled the condition three and thus, the mediating analysis in the last step was conducted only using the AUF. Thus, the results show that the AUF partially and significantly mediated the relationships between the ACS, ACLEs, and ACSO and the IS of the listed companies in Nigeria. However, the mediating effects of the AUF on the

relationships between the ACI, ACMs, ACFAEs, FACMs, ACT, and ACC were not supported since some conditions of the mediation were not satisfied by the predictor variables.



CHAPTER SEVEN

SUMMARY, CONCLUSION AND RECOMMENDATIONS

7.1 Introduction

Financial reports are notable means through which companies interact with their users. It is a mechanism through which a company portrays its financial results and its position. Financial analysts and investors make use of financial reports to make rational decisions. Ideally, the financial reports are meant to provide reliable, timely and relevant information to assist users in decision making, but not be intentionally prepared with any form of material error and bias that could mislead the users. Consequently, the information contained in the financial reports ought to be clearly accessible, with supplementary proof supplied in the supporting footnotes as required to assist in the interpretation. Thus, the steadfastness of the financial reports depends on the relevance and reliability of the accounting earnings. Hence, the relevance of accounting earnings to the stakeholders of any given firm is very crucial since the entire faith of the entity as well as of its stakeholders depends on it.

A number of accounting scandals and failures (e.g., Enron, Global Crossing, Xerox, and WorldCom) have made a lot of investors lose confidence and accordingly, raised grave concerns about the trustworthiness and steadfastness of the financial reports and AC's effectiveness in protecting their interests. For this reason, there is a growing need to be more proactive in CG issues since they are so imperative, as a weak CG can lead to the failure of a country's economic structure. To address this issue, the regulatory agencies and policy makers have responded by promoting and reviewing governance mechanisms to minimise the opportunistic behaviours and

agency costs that have smashed shareholders' reliability in financial information. Therefore, several studies have examined the relationship between corporate governance mechanisms (including the most pivotal of these mechanisms, AC and audit quality) and FRQ. However, the evidence documented about these relations is still equivocal.

This study adds value to the existing and on-going argument on the relationships between AC characteristics and FRQ. This present study has closed some gaps by providing empirical evidence on the influence of: 1) AC characteristics and FRQ, 2) AC characteristics and audit quality, 3) audit quality and FRQ, and 4) the mediating effect of audit quality on the relationship between AC characteristics and FRQ. This study has recognised that some AC characteristics have significant influence on FRQ in the Nigerian context that is characterised with a distinct AC formation. Similarly, the study has documented that several AC attributes were consistent with the complementary premise of audit quality whilst a few supported the substitution hypothesis. Also, the study established that audit quality has a significant influence on the FRQ of the listed firms in Nigeria. It was recognised that audit quality partially and significantly mediated the relationship between the AC characteristics (precisely ACS, ACFAEs, ACLEs, and ACSO) and the FRQ.

7.2 Overview of the Thesis

This thesis comprises the empirical findings on four imperative steps of mediation (mediating effect of audit quality on the relationship between the AC characteristics and the FRQ (proxied by EM measurement) of the listed companies in Nigeria.

These steps have been classified into, 1) the relationship between AC characteristics and FRQ, 2) the relationship between AC characteristics and audit quality, 3) the relationship between audit quality and FRQ, and 4) the mediating effect of audit quality on the relationship between AC characteristics and FRQ. Chapter One of the thesis reflected the importance and issues of FRQ and AC effectiveness across the globe. Chapter One also discussed the theoretical problem relating to FRQ and AC effectiveness in the problem statement and highlighted the research questions, objectives of the study, scope, and significance of the study. Chapter Two presented the overview of FRQ, financial reporting framework in Nigeria, AC effectiveness, and an overview of the Codes of CG in Nigeria. The chapter also recapped the similarities and differences between the Nigerian GAAP and IFRS. The chapter also reviewed the related literature on the AC characteristics, audit quality, and FRQ.

Moreover, Chapter Three discussed the theoretical background and hypotheses development. Chapter Four discussed the research methodology employed by the study. Chapter Five explained the analyses of the findings on the mediating effect of audit quality on the relationship between AC characteristics and FRQ proxied by EM measurement (using DA). Chapter Six discussed the findings about the mediating effect of audit quality on the relationship between AC characteristics and FRQ proxied by EM measurement (using IS). Chapter Seven completed this thesis by providing an overview of the work, summary of the findings, highlights of the contributions, recaps of some limitations of the study, and finally, suggestions for further research.

7.3 Summary of the Findings

The thesis addressed four main objectives. First, was to examine the relationship between AC characteristics and FRQ proxied by EM measurement. Second, was to find out the relationship between AC characteristics and audit quality. Third, was to assess the relationship between audit quality and FRQ. Last, was to examine the mediating effect of audit quality on the relationship between AC characteristics and FRQ. The next subsections provide the summary of the findings on these four main objectives.

7.3.1 Findings on the Relationship between AC Characteristics and Financial Reporting Quality

This section outlines the findings of the first main objective that stressed on the relationship between the AC characteristics and the FRQ (proxied by EM measurement) of the listed companies in Nigeria. The study focused on DA and IS as proxies for FRQ. Nine AC attributes were used in this study. These were the ACS, ACI, ACMs, ACFAEs, ACLEs, FACMs, ACSO, ACT, and ACC. As regards the findings of the relationship between AC characteristics and DA, the study partially supports the influence of AC attributes on FRQ relating to DA. The first AC attribute, ACS, supports the resource dependence theory and concludes that a larger ACS is considered to be highly resourceful in improving the FRQ. The study did not find statistical evidence to support the negative relationship between ACI and DA, suggesting that the proportion of independent directors to the AC does not make any meaningful contribution to the effectiveness of AC in curtailing earnings management practices in the form of DA. A possible explanation for this could be related to the connectedness of the independent directors with the CEOs. It is likely

that connectedness of the independent directors with the CEOs may impair their independence and hence, decrease their monitoring ability in the financial reporting process. The study provides statistical evidence that the more frequent the AC meets, the more inspection and conversation they have on financial reporting matters and thus, it positively influences FRQ. This supports the agency theory which proposes that AC members that are keen on meaningful and substantive meetings provide superior monitoring and enhance the financial reporting process. Consistent with the resource dependence theory, the study has established that AC members with financial accounting expertise are more likely to prevent earnings manipulation in Nigeria. Thus, accounting experts in the AC are resource providers recognised through their know-how, skills, and experiences.

Furthermore, the study provides a premise that the presence of legal experts on the AC does not prevent managers' intensity in participating in earnings management practices in form of DA in Nigeria. The possible explanation for this could be due to the fact that legal directors do not have the specific training relating to financial reporting like financial experts. Thus, their inexperience of accounting may likely make them to be ineffective in decreasing financial accounting manipulation in the form of DA. The study has also established that FACMs have positive influence on the DA of the listed firms in Nigeria. This supports the liberal feminist theory which suggests women are deprived compared to men as a result of obvious discrimination and systemic influence that keep them away from receiving vital resources, such as business education and experience. The ACSO is another AC attribute considered by the study. It was documented that the ACSO does not support the agency theory of

shareholders-managers" alignment. A possible reason for this could be attributed to the number of shares the AC members possess as they have been found to be negligible compared to the total number of shares outstanding by the firm. It has also been established that the extended tenure of directors in the AC and the chairmanship of the shareholders in the AC do not decrease earnings management and thus, do not guarantee better FRQ. A possible reason might be that exceptionally long-tenured board service may potentially impair independence as the oldest directors might be more apparent to befriend management and hence, become less critical of the quality of its financial statement. Meanwhile, the presence of shareholders may reduce their monitoring role in the decision-making process. Since shareholders can be more convince to increase their value as a result of share price increase (Sharma & Kuang, 2014).

Considering the findings of the relationship between AC characteristics and IS, most of the AC attributes support the influence of the AC on FRQ relating to IS. The first variable considered by this study was the ACS; prior studies have documented that a bigger AC size is more effective in monitoring management (Liu & Sun, 2010; Setiany, et al., 2017;). This study has also established that more AC members are superior in decreasing the likelihood of performing artificial IS in the listed firms in Nigeria. Consequently, the lower the probability of IS practice, the better the quality of the FRQ. Consistent with the signaling theory, it is assumed that increasing the presence of independent non-executive directors in the board may possibly gesture to owners that the company has strong corporate governance which will, in turn, enhance investors" protection and thus, promote FRQ. This study has also provided

evidence that a larger percentage of ACI reduces the probability that a firm will engage in artificial IS and, in turn, increases FRQ. It is evident from the prior literature that more frequent ACMs enhance FRQ (Habbash & Alagla, 2015; Hamdan et al., 2013). Conversely, this study found that ACMs increase the likelihood of IS practices in the listed companies in Nigeria. This is line with the notion that more frequent meetings is a repetitive formality used by companies with little real accomplishments (Katmon & Farooque, 2015; Uzun et al., 2004).

Furthermore, contrary to the research expectation, it was documented that the ACFAEs exhibit a positive significant association with IS. One possible explanation for this is that it is very likely that members of the AC who are extremely connected with chief executive officers (CEOs) may purchase fewer audit services and be more involved in earnings smoothing. Prior literature has also recognised that the connectedness of the CEOs and AC members offers a negative impact on the worth of the AC's oversight (Bruynseels & Cardinaels, 2014; Krishnan, Raman, Yang, & Yu, 2011). One of the interesting findings of this current study is between the ACLEs and IS, which unveils that the existence of legal experts in the AC reduces the likelihood of artificial IS practices and thus, enriches FRQ. This supports the belief that the legal experts in the AC act as monitors of rather than mere signals to the financial report (Krishnan, et al. 2011; Shankaraiah & Amiri, 2017). Another interesting finding of this present study is manifest from the result of FACMs, which reveals a negative significant relationship with IS. The result confirms the social feminist theory which suggests that the core dissimilarity between women and men

does not infer that women are inferior to men as men and women may perhaps develop differently but with identical effective qualities.

Supporting the agency theory, the study has documented that AC shares lessens the likelihood that a firm will be an income smoother and, in turn, improves FRQ. This suggests that AC shares aligns the interests of its members with the interests of other shareholders (Vafeas, 2005a; Yermack, 2004). Similarly, consistent with the advocates of the agency theory, this study has established that the longer the directors have to function on the board, the more accustomed and experienced they will be about the firm's practices and, consequently, they will become more effective in preventing the likelihood of financial reporting fraud (Beasley, 1996; Hermalin & Weisbach, 1991; Vafeas, 2005). Finally, it has been documented that the ACC does not have any pertinent influence in lowering the probability of artificial smoothing.

7.3.2 Findings on the Relationship between AC Characteristics and Audit Quality

This section summarises the findings of the second main objective that emphasises the relationship between the AC characteristics and the audit quality of the listed companies in Nigeria. The study considered AUF and BIG4 auditors as proxies for audit quality. To recap, the results of the relationship between AC characteristics and AUF moderately supports the impact of the AC attributes on audit quality. The ACS as of the first attribute of the AC used in the study supports the insinuation that larger ACS has a higher prospect of increasing the AUF and thus, enhances audit quality. The study has established that the existence of independent or nonexecutive directors on the AC may not have a considerable effect on the AUF of the listed companies in

Nigeria. It has also been established that a high frequency of AC meetings might not guarantee a high AUF. This is may be due to the fact that a more persistent frequency of meetings could lead to exhaustion and weariness, consequently crafting room for accepting irrelevant consultations that are exterior to the overall objectives of the firm.

Furthermore, it has also been concluded that an increase of one member with an accounting professional certificate to the AC intensifies the AUF to demand for greater external monitoring and assurance in the listed companies in Nigeria. The ACLE was the next variable of interest employed by the study. It has been recognised that legal experts in the AC are manifested to be monitors rather than normal signals to financial reporting. Since their existence with legal backgrounds makes them want to avoid ligation risk by paying high audit prices. The study has also inferred that the presence of a female director in the AC cuts the audit price. Because the FACM acquires less audit services from the external auditors since they usually have to display excessive skills for them to gain managerial positions and be on corporate boards. The study also supports the proponents of the agency theory on shareholders-management alignment that, a unit increase of the ACSO proportionately increases the AUF in their quest for greater assurance. It has been concluded that the ACT did not meaningfully influence the audit price of the listed firms in Nigeria. This might be because the extensive tenure of the director could lead to a sociable connectedness with the management that might be developed over time. Thus, directors who have strong personal connections with the management are more likely to be reappointed and last for a long term which makes their contribution

to be impaired by such cordial relationships with the managers. Lastly, the study has also established that when the chairmanship of the AC is saddled in the hand of the shareholders, the AUF decreases.

On the findings of the relationship between AC characteristics and BIG4 auditors, some of the AC attributes support the research hypothesis on the positive influence of AC characteristics on audit quality (using BIG4). The study has recognised that the size of the AC did not provide any substantial role in the choice of the BIG 4 auditors. This is consistent with the notion that small ACs could act more effectively than the larger ACs as it is more probable that the smaller AC will make substantial decisions without wasting time. It has been found that a higher proportion of independent or nonexecutive directors to the AC raises the probability of employing BIG 4 auditors in the listed companies in Nigeria. Thus, this makes them purchase high quality auditing services and more forceful in reducing the tendency of financial reporting frauds. It has been established that the frequency of ACMs reduces the likelihood of admiring the services of a BIG 4 auditor. This could be due to the fact that more frequent AC meetings might reduce the tendency of financial reporting frauds in a firm and accordingly making them require less audit assurance.

The study also supports the demand hypothesis of audit that is allied to the agency theory which proposes that audit services are required to lessen agency conflicts growing from the interests of equity holders and managers. As has been revealed, AC members with financial accounting acquaintance are highly likely to procure the services of BIG 4 auditors in the process of selecting an audit brand name. It has also been concluded that the ACLEs are risk avoidant, thus making them engage

better auditors, such as the BIG 4 in order to gain greater audit assurance. The study has also recognised that FACMs prefer BIG 4 auditors in their demand for greater audit efforts to safeguard the firms' reputational capital. This is consistent with the belief that a diverse gender in the AC requires a higher audit quality in high risk environments.

The next variable of interest was ACSO. The result from their relationship supports the complimentary hypothesis as it has been established that the monitoring role provided by the ACSO makes them demand greater audit assurance through engaging the service of BIG 4 auditors. Contrary to the research expectation, it was revealed that the elongated tenure of directors results in less likelihood of engaging BIG 4 auditors. This could be as a result of the fact that job-relevant knowledge is grown over time and thus, older directors can become very acquainted with the firms' internal control system and corporate operations over time. This, consequently, makes them demand less audit effort. Similarly, it has also been concluded that the chairmanship by shareholders in the AC decreases the likelihood of engaging BIG 4 auditors. The inverse relationship can be interconnected to the result of the relationship between the ACC and the AUF, which also revealed an inverse association. Therefore, it is believed that firms which are audited by BIG4 are more likely to pay high audit fees.

7.3.3 Findings on the Relationship between Audit Quality and Financial Reporting Quality

This section summarises the findings of objective three of the thesis, which was to determine the relationship between audit quality and the FRQ of the listed companies

in Nigeria. In testing the hypotheses, audit quality was presented by the AUF and BIG 4 auditors; whereas, DA and IS were used as proxies for FRQ. In support of the agency theory, the result of the relationship between the AUF and DA revealed that an increase in the AUF decreases the DA and, accordingly, enhances the FRQ of the listed companies in Nigeria. It is based on the evidence that auditing of financial reports is acknowledged as a means to decrease agency cost and thus, a high AUF is associated to lower EM and higher FRQ. The study has also established that there has been no difference found in the audit quality between BIG4 and Non-BIG4 auditors in Nigeria. This might be accredited to the auditors' rotations as provided by the SEC CCG (2011), which stipulates that auditors should be retained for no longer than ten years. Thus, extremely prolonged auditors' tenures might impair their independence since the longer they stay as auditors of the same firm, the more likely it is that they will befriend management and thus, become less critical of accounting issues.

Moreover, the finding of the relationship between the AUF and IS has demonstrated that a higher AUF reduces the likelihood of the artificial smoothing behaviour of the firms and thus, enhance FRQ. This is based on the inference that auditing of financial reports is prominent as a means to cut agency costs and thus, a high AUF minimises EM and promotes FRQ. On the contrary, the study has established that Non-BIG 4 auditors are more likely to decrease the IS behaviour of the listed companies in Nigeria. This is because, the Non-BIG4 auditors may have superior knowledge of the local markets and better relations with their clients which enables them to better recognise irregularities in the companies.

7.3.4 Findings on the Mediating Effect of Audit Quality on the Relationship Between AC Characteristics and Financial Reporting Quality

This section summarises the findings of objective four of the study which was to determine the mediating effect of audit quality on the relationship between the AC characteristics and the FRQ of the listed companies in Nigeria. In testing hypothesis (H₁₂), two mediators (AUF and BIG4) were used as proxies for audit quality. From the findings, only the AUF model fulfilled all the conditions of mediation as it moderately satisfied (H_{10a}-H_{10i}) and fully supported (H₁₁). Consequently, the AUF partially mediated the relationship between the AC characteristics and FRQ of the listed companies in Nigeria. From the nine variables used as proxies for the AC characteristics, four satisfied all the conditions of mediation following Baron and Kenny (1986), Hayes and Rockwood (2017), Holmbeck (1997), and Sobel (1982). These included the ACS, ACFAEs, ACLEs, and ACSO. The remaining five variables (ACI, ACMs, FACMs, ACT, and ACC) failed to meet all the conditions thus, the mediating effect of ACI, ACMs, FACMs, ACT, and ACC through the AUF on FRQ was not supported by the results of the study.

The finding of the mediating effect of the AUF on the relationship between the ACS and FRQ (using both DA and IS) was that, the AUF partially mediated the relationship between the ACS and the FRQ of the listed companies in Nigeria. The mediation was partial since the AUF did not decrease the effect of the ACS on FRQ to insignificance. A further test (Sobel Test) also revealed that the mediation was significant thus, a false positive and negative conclusions were avoided. The finding provides an insight on the causal effect of the complementary hypothesis of audit quality, which proposes that ACs will demand greater assurance from the external

auditors to guarantee an effective oversight of the financial reports and to safeguard their capital reputations. The result also supports the institutional theory, which suggests that integrating ACs to work with external auditors will enhance, better, the monitoring of the financial reporting process.

The study has also documented that the AUF partially and significantly mediated the relationship between the ACFAEs and the FRQ (using the DA only) of the listed companies in Nigeria. This implies that a greater proportion of ACFAEs increases the AUF in their quest for greater assurance, whilst the resultant increase in the AUF decreases the DA, and this is associated with better FRQ. From the IS model, it has been established that the AUF partially mediated the relationship between the ACLEs and the FRQ of the listed companies in Nigeria. This effect has further been confirmed by the Sobel test, and the result was found to be significant. Consequently, this finding suggests that the excessive AUF paid to the external auditors in the listed companies in Nigeria significantly complements the oversight function of the ACLEs on the managers' use of flexible accounting choices to artificially smooth income.

The study has also concluded that the AUF partially and significantly mediated the relationship between the ACSO and the FRQ (in both the DA and IS) of the listed companies in Nigeria. The result provides an insight on the causal effect of the AC and audit quality thus, it has been recognised that the ACSO acts as a monitor by demanding higher audit quality in exchange for greater audit efforts. This supports the agency theory, which suggests that the demand for independent external auditors rises from a desire to lessen the management's deceptive behaviour, which results from asymmetric information between stockholders and managers.

7.4 Contribution

This study has made several contributions in the following manners. First, as mentioned in Chapter One, this current study provides an initial insight into the mediating effect of audit quality on the relationship between the AC characteristics and income smoothing in Nigeria. Consequently, the study fills this literature vacuum by providing evidence on how the AUF mediates the relationship between the AC characteristics and the FRQ of the listed companies in Nigeria. The study has documented that the AUF partially and significantly mediates the relationship between the AC characteristics (ACS, ACFAEs, ACLEs, and ACSO) and the FRQ of the listed companies in Nigeria. These findings provide an initial insight about how the influence of the AC affects audit quality and, in return, affects FRQ. At the same time, the findings provide a better understanding about how the influence of the AUF affects the AC oversight function which, in return, enhances FRQ.

Secondly, the study has also provided an additional contribution from the direct models tested. For instance, prior studies have documented the importance of legal experts in monitoring financial reporting by curtailing EM in the form of DA (Baxter & Cotter, 2009; Krishnan, et al., 2011). This present study has extended the above by documenting an initial evidence about how legal experts in the AC constrains artificial income smoothing. The study has established that a larger percentage of legal experts in the AC decreases the likelihood of artificial IS practices by firms and thus, enhances FRQ. This will serve as additional evidence to the body of literature.

More so, the study provides initial evidence on the relationship between the ACLEs, FACMs, ACSO, ACT, and ACC and IS in Nigeria. The study has also documented

initial evidence about the influence of the ACLEs, FACMs, ACSO, ACT, and ACC on the audit quality (proxied by the AUF and BIG4) in Nigeria. Consequently, the findings documented in this study have contributed to the current trend in financial reporting studies by identifying the roles these AC attributes can play in enhancing the FRQ in Nigeria. For instance, this study has documented that: Legal experts in the AC decrease the likelihood of artificial IS practices in the listed companies in Nigeria. It has also been recognised that the presence of legal experts in the AC increases the likelihood of engaging the services of BIG4 auditors and paying high audit prices in the quest to enhance audit assurance. Thus, these findings have exposed the importance of legal experts in the AC formation in Nigeria.

For the income smoothing model, it was recognized that the presence of female directors in the AC decreases the likelihood of artificial income smoothing behaviour in Nigeria. It signifies that, female directors have to exhibit superfluous skills in order to gain managerial positions and be on corporate boards, thus making them reduce the need for the assurance expected from external auditors. These findings have also stressed the importance of the existence of female directors in the AC formation in Nigeria, particularly at this present time, when the issue of gender is of considerable attention in Nigeria.

Furthermore, using the income smoothing model, it was established that the larger the number of units of shares possessed by the AC, the more powerful they are in reducing the likelihood of IS practices in Nigeria. The ACSO increases the probability of purchasing high audit services by hiring BIG 4 auditors and the payment of high audit fees. All of this initial evidence documented by this study

provides an insight to the importance of the shares possessed by the AC in improving the FRQ in Nigeria.

The long tenure of directors in the AC plays a pivotal role in lessening the likelihood of IS practices in Nigeria. Long-tenured directors are less likely to purchase the service of BIG 4 auditors in Nigeria since elder directors can gain a lot of familiarity with the firms' internal control systems and corporate operations over time. They can develop interactions with the management to gain more valuable information for their judgments on financial matters. They also have greater knowledge, and expertise, and promise to perform better, thus enabling them to have less desire for the greater external monitoring provided by BIG 4. This also provides a guide about how this attribute of the AC influences the FRQ in Nigeria.

Finally, one of the distinctive attributes of the AC formation in Nigeria is the recognition of membership from both shareholders and directors as required by the CAMA (2004). Thus, this study has empirically examined this uniqueness by testing whether AC chairmanship would be more effective at the hands of shareholders who occupied 89% of the AC chairmanship of the listed companies in Nigeria. The study has documented that, when the AC is chaired by a shareholder, no meaningful contribution is accomplished in reducing financial reporting frauds and improving the FRQ in Nigeria. In addition, shareholders' chairmanships in the Nigerian ACs did not provide meaningful influence on the audit quality of the listed companies in Nigeria. This interesting finding has a significant role to play for policy makers in the selection of AC chairpersons in Nigerian companies.

Third, this present study contributes to the existing literature on FRQ. Most of the prior studies on FRQ have concentrated on the accrual measures of FRQ. However, Chen et al. (2010) confirmed that the majority of the FRQ indicators (absolute discretionary accruals, managing earnings toward targets, and accruals quality) improved after the IFRS adoption in 15 European Union nations, which indicates lower discretionary accruals. In contrast, corporations were involved in IS and a large recognition of losses in a less timely manner after the IFRS adoption. As such, IS seems to be a common practice by corporations in many countries of the world (Dechow et al., 2010). This study has extended the level of understanding of the FRQ using the DA by considering the IS practices in the financial statements of the listed companies in Nigeria. This contribution is timely as the recent changes in regulations in the Nigerian reporting system (the revised SEC CCG 2011 and IFRS adoption 2012) could have made some companies shift their attention from the DA practices to the IS practices. Consequently, identifying the tricks that might be employed to perpetrate IS practices is pivotal. Interestingly, this study has established that more than 61% of the listed firms in Nigeria had smooth their reported incomes, over time, during the periods of the study. This could have an adverse effect on the financial reporting process in Nigeria. Thus, the findings serve as an insight to the regulators and policy makers in Nigeria.

Moreover, the study adds value to the understanding of the existing theories. Because, it contributes to the agency theory by detecting some factors that can be employed to lessen agency costs. The agency theory suggests that monitoring devices have to align with the interests of the management and the owners in order to

reduce the conflict of interest as well as any feasible managers' opportunistic behaviours that might arise. This study has established that the ACFAEs, ACLEs, ACSO, and ACT can be used to lessen the agency costs. The study has also provided an initial understanding on the complementary hypothesis of audit quality as it identifies that the ACS, ACFAEs, ACLEs, and ACSO demand greater audit assurance by paying a high AUF in their desire to lower managers' deceptive behaviours that result from asymmetric information between the stockholders and the managers. It has also evidenced that the ACC cannot be relied upon to lessen agency problems in a situation where the AC is chaired by a shareholder. Similarly, the study also adds value to the understanding of IS as a technique to be adopted by firms to detect deceptive financial information which eventually lessens agency conflicts.

Furthermore, the study adds worthiness to the resource dependence theory. As it empirical provides evidences that ACS and ACFAE have greater influence on financial reporting quality. Thus, emphasizes the need for companies' AC to be bigger and source more directors with financial accounting expertise in order to share the diverse skills expertise and experience amongst themselves.

More so, the study contributes to the signaling theory. Though the study has not documented evidence of any statistical influence of the ACI on the DA, it has established that for the ACI, a larger proportion of autonomous directors in the AC decreases the probability that a firm will smooth its earnings. Thus, this decreases the chance of artificial IS practices and which, in turn, improves FRQ. This stresses that increasing the presence of independent non-executive directors in the AC could

signal to owners that the company has robust corporate governance which, in turn, promotes investors' protection and thus, enhances FRQ.

The study contributes to the feminist theory and thus, validates both the social feminist theory and liberal feminist theory. Consistent with the social feminist theory, the study provides empirical evidence that the presence of at least one female director in the AC decreases the probability that a firm will smooth its earnings. Thus, it suggests that the innate difference between women and men does not infer that women are inferior to men since men and women may develop differently, but with equal effective qualities. In contrast, supporting the liberal feminist theory, the study has established that the presence of a female director in the AC might not reduce the likelihood of managers' deceitful behaviours towards the earnings inform of DA, which has an adverse effect on FRQ. Thus, this suggests that women are deprived compared to men as a result of obvious discrimination and systemic influence that keep them away from receiving vital resources, such as business education and experience.

Lastly, the study also contributes to the institutional theory. Interestingly, the study provides initial empirical evidence on the mediating effect of audit quality (AUF) on the relationship between AC characteristics (ACS, ACFAEs, ACLEs, and ACSO) and FRQ. Thus, it has been recognised that combining the AC's work with those of the external auditors enhances better monitoring of the financial reporting process. This is because, the AC is reflected to be a formal assembly that is engaged by an organisation in a ceremonial way, but the actual monitoring of an organisation is determined by other external factors, for example, external auditors in this context.

This conjecture is popularly known as "decoupling" by the proponents of the institutional theory.

7.5 Practical Implication

The findings of this study have exposed some weakness in the Nigerian Code of Corporate Governance. It is obvious that the code has put emphasis on the provision of at least one independent non-executive director on the board and the need for AC financial expertise. There is no such provision about AC independence, which is contrary to the global best practice. However, this study has documented the importance of the presence of independent non-executive directors in the AC as they show a signal to investors that the company has robust corporate governance which, in turn, promotes their protection and thus, enhances FRQ. This study recommends that the Nigerian SEC should, in the forthcoming code, recognise the presence of independent non-executive directors in the AC.

More so, the Code's definition of financial expertise is equivocal. It is apparent that section 30(1) of the Code provides that "at least one member of the committee should be financially literate". However, section 30(2) stipulates that "members of the committee should have basic financial literacy and should be able to read financial statements. At least one member should have knowledge of accounting or financial management". The foregoing ambiguous statements may lead to non-compliance as a result of difficulties in the interpretation. Therefore, this study recommends that the Nigerian SEC should, in the forthcoming code, redefine financial expertise to mean: (a) A person with at least a bachelor degree and financial

accounting professional qualification and (b) A person with a minimum of five years of skills in a finance related position or audit firm. As well as, (c) The number of directors in the AC with the required professional qualifications should be increased to at least two persons. This will enable them to have a thorough knowledge of the companies' financial reports and appreciate the advantage of collective responsibility. Furthermore, in addition to financial experts, the SEC should consider the presence of legal experts in the AC as this study has empirically documented the importance of legal experts in the AC formation in Nigeria. The study has established that AC legal experts serve as monitors rather than mere signals to the financial reporting. The tenure of external auditors should also be reduced to five years instead of ten years as required by the SEC (2011). This is because the period may be considered too long as exceptionally prolonged auditors' tenure might impair their independence as the longer they stay as auditors of the same company, the more probable it is that they will befriend the management and thus, become less critical of the accounting issues.

In addition, as highlighted in Chapter One, the Financial Reporting Council of Nigeria (FRC) recently established a rule called Rule 2(c) in 2016, mandating AC chairs to have financial accounting expertise. However, a federal high court in Nigeria overruled the FRC rule in January 2018 on the grounds that it is contrary to the provision of the CAMA (2004) and the SEC Code (2011) (Egwuatu, 2018). Thus, this study has empirically documented that if the chairmanship of the AC is in the hand of shareholders, it does not guarantee better FRQ. Consequently, this study recommends that the regulators should be very cautious about shareholders serving

as chairpersons of the AC. This is because; the presence of shareholders in the AC may reduce their monitoring role in the decision-making process. Since shareholders may be more induce to increase their value as a result of share price increase (Sharma & Kuang, 2014).

Finally, the study has a considerable influence on the investors, academics, and analysts that need to extend their level of understanding on the extent of influence or causal relationship of AC attributes, audit quality, and FRQ. In general, the study has investigated the influence of AC characteristics and FRQ vis-a-vis the DA and IS, the relationship between AC characteristics and audit quality proxied by AUF and BIG 4, the relationship between audit quality and FRQ, as well as the mediating effect of audit quality on the relationship between AC characteristics and FRQ. The findings of these relationships will assist the investors, academics, and analysts to better identify the consequences of these variables in enhancing the reliability of financial disclosure which, in return, will enhance investors' confidence.

7.6 Limitations

The findings of this study can be properly interpreted with a better apprehension of the following limitations. First, though the study employed two measures of FRQ, using DA and IS, there are a number of proxies to be used in measuring FRQ. These include value relevance models, earnings persistence and predictability, timeliness of reporting, and earnings conservatism. However, despite these numerous measures of FRQ there is no clear technique of measuring FRQ.

Second, the findings of this thesis are drawn from non-financial services hence generalisation is not possible. Thus, the findings of this thesis might not be applicable to the financial sector as financial services have their own unique characteristics and regulations.

Finally, this study has focused on AC and audit quality as monitoring devices in determining FRQ. However, there are several monitoring devices that influence FRQ, such as ownership structure, board characteristics, and internal audit. Yet, though the above limitations highlight room for improvement in future FRQ studies, this should not undermine the worth of this research.

7.7 Concluding Remark

This section highlights the major inferences, contributions, limitations, and recommendations for upcoming research. This study has examined the influence of AC characteristics and FRQ (DA and IS), the relationship between AC characteristics and audit quality proxied by AUF and BIG4, the relationship between audit quality and FRQ, as well as the mediating effect of audit quality on the relationship between AC characteristics and FRQ. Generally, it has been observed that the issue of FRQ and strong corporate governance in Nigeria is imperative since better FRQ and effective corporate governance boost investors' confidence which, in return, promote capital market efficiency and enhance the overall economy of a country.

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Appendix A

Listed companies in the Nigerian Stock Exchange as at 31 December 2016

Sn	Company	Sector
1	ELLAH LAKES PLC.	AGRICULTURE
2	FTN COCOA PROCESSORS PLC	
3	LIVESTOCK FEEDS PLC.	
4	OKOMU OIL PALM PLC.	
5	PRESCO PLC	
6	A.G. LEVENTIS NIGERIA PLC.	CONGLOMERATES
7	CHELLARAMS PLC.	
8	JOHN HOLT PLC.	
9	S C O A NIG. PLC.	
10	TRANSNATIONAL CORPORATION OF NIGERIA PLC	
11	U A C N PLC.	
12	ARBICO PLC.	CONSTRUCTION/REAL ESTATE
13	JULIUS BERGER NIG. PLC.	
14	ROADS NIG PLC.	
15	SKYE SHELTER FUND PLC	
16	SKYE SHELTER FUND PLC	
17	SMART PRODUCTS NIGERIA PLC	
18	UACN PROPERTY DEVELOPMENT CO. LIMITED	
19	UNION HOMES REAL ESTATE INVESTMENT TRUST (REIT)	
20	UPDC REAL ESTATE INVESTMENT TRUST	
21	CADBURY NIGERIA PLC.	CONSUMER GOODS
22	CHAMPION BREW. PLC.	
23	DANGOTE FLOUR MILLS PLC	
24	DANGOTE SUGAR REFINERY PLC	
25	DN TYRE & RUBBER PLC	
26	FLOUR MILLS NIG. PLC.	
27	GOLDEN GUINEA BREW. PLC.	
28	GUINNESS NIG PLC	
29	HONEYWELL FLOUR MILL PLC	
30	INTERNATIONAL BREWERIES PLC.	
31	MCNICHOLS PLC	
32	MULTI-TREX INTEGRATED FOODS PLC	
33	N NIG. FLOUR MILLS PLC.	
34	NASCON ALLIED INDUSTRIES PLC	
35	NESTLE NIGERIA PLC.	
36	NIGERIAN BREW. PLC.	
37	NIGERIAN ENAMELWARE PLC.	
38	P Z CUSSONS NIGERIA PLC.	
39	UNILEVER NIGERIA PLC.	
40	UNION DICON SALT PLC.	
41	VITAFOAM NIG PLC.	

Sn	Company	Sector
42	ABBNEY MORTGAGE BANK PLC	FINANCIAL SERVICES
43	ACCESS BANK PLC.	
44	AFRICA PRUDENTIAL PLC	
45	AFRICAN ALLIANCE INSURANCE COMPANY PLC	
46	AIICO INSURANCE PLC.	
47	ASO SAVINGS AND LOANS PLC	
48	AXAMANSARD INSURANCE PLC	
49	CONSOLIDATED HALLMARK INSURANCE PLC	
50	CONTINENTAL REINSURANCE PLC	
51	CORNERSTONE INSURANCE COMPANY PLC.	
52	CUSTODIAN AND ALLIED PLC	
53	DEAP CAPITAL MANAGEMENT & TRUST PLC	
54	DIAMOND BANK PLC	
55	ECOBANK TRANSNATIONAL INCORPORATED	
56	EQUITY ASSURANCE PLC.	
57	FBN HOLDINGS PLC	
58	FCMB GROUP PLC.	
59	FIDELITY BANK PLC	
60	FORTIS MICROFINANCE BANK PLC	
61	GOLDLINK INSURANCE PLC	
62	GREAT NIGERIAN INSURANCE PLC	
63	GUARANTY TRUST BANK PLC.	
64	GUINEA INSURANCE PLC.	
65	INFINITY TRUST MORTGAGE BANK PLC	
66	INTERNATIONAL ENERGY INSURANCE COMPANY PLC	
67	JAIZ BANK PLC	
68	LASACO ASSURANCE PLC.	
69	LAW UNION AND ROCK INS. PLC.	
70	LINKAGE ASSURANCE PLC	
71	MUTUAL BENEFITS ASSURANCE PLC.	
72	N.E.M INSURANCE CO (NIG) PLC.	
73	NIGER INSURANCE CO. PLC.	
74	NIGERIA ENERGY SECTOR FUND	
75	NPF MICROFINANCE BANK PLC	
76	OMOLUABI MORTGAGE BANK PLC	
77	PRESTIGE ASSURANCE CO. PLC.	
78	REGENCY ALLIANCE INSURANCE COMPANY PLC	
79	RESORT SAVINGS & LOANS PLC	
80	ROYAL EXCHANGE PLC.	
81	SIM CAPITAL ALLIANCE VALUE FUND	
82	SKYE BANK PLC	
83	SOVEREIGN TRUST INSURANCE PLC	

Sn	Company	Sector
84	STANBIC IBTC HOLDINGS PLC	
85	STANDARD ALLIANCE INSURANCE PLC.	
86	STANDARD TRUST ASSURANCE PLC	
87	STERLING BANK PLC.	
88	UNIC DIVERSIFIED HOLDINGS PLC.	
89	UNION BANK NIG.PLC.	
90	UNION HOMES SAVINGS AND LOANS PLC.	
91	UNITED BANK FOR AFRICA PLC	
92	UNITED CAPITAL PLC	
93	UNITY BANK PLC	
94	UNIVERSAL INSURANCE COMPANY PLC	
95	VERITAS KAPITAL ASSURANCE PLC	
96	WAPIC INSURANCE PLC	
97	WEMA BANK PLC.	
98	ZENITH INTERNATIONAL BANK PLC	
99	EKOCORP PLC.	HEALTHCARE
100	EVANS MEDICAL PLC.	
101	FIDSON HEALTHCARE PLC	
102	GLAXO SMITHKLINE CONSUMER NIG. PLC.	
103	MAY & BAKER NIGERIA PLC.	
104	MORISON INDUSTRIES PLC.	
105	NEIMETH INTERNATIONAL PHARMACEUTICALS PLC	
106	NIGERIA-GERMAN CHEMICALS PLC.	
107	PHARMA-DEKO PLC.	
108	UNION DIAGNOSTIC & CLINICAL SERVICES PLC	
109	CHAMS PLC	ICT
110	COURTEVILLE BUSINESS SOLUTIONS PLC	
111	CWG PLC	
112	E-TRANZACT INTERNATIONAL PLC	
113	NCR (NIGERIA) PLC.	
114	OMATEK VENTURES PLC	
115	TRIPPLE GEE AND COMPANY PLC.	
116	AUSTIN LAZ & COMPANY PLC	INDUSTRIAL GOODS
117	BERGER PAINTS PLC	
118	BETA GLASS PLC.	

Sn	Company	Sector
11	CAP PLC	
9		
12	CEMENT CO. OF NORTH.NIG. PLC	
0		
12	CUTIX PLC.	
1		
12	DANGOTE CEMENT PLC	
2		
12	FIRST ALUMINIUM NIGERIA PLC	
3		
12	GREIF NIGERIA PLC	
4		
12	LAFARGE AFRICA PLC.	
5		
12	MEYER PLC.	
6		
12	PAINTS AND COATINGS MANUFACTURES PLC	
7		
12	PORTLAND PAINTS & PRODUCTS NIGERIA PLC	
8		
12	PREMIER PAINTS PLC.	
9		
13	ALUMINIUM EXTRUSION IND. PLC.	NATURAL RESOURCES
0		
13	B.O.C. GASES PLC.	
1		
13	MULTIVERSE MINING AND EXPLORATION PLC	
2		
13	THOMAS WYATT NIG. PLC.	
3		
13	11 PLC	OIL AND GAS
4		
13	ANINO INTERNATIONAL PLC.	
5		
13	CAPITAL OIL PLC	
6		
13	CONOIL PLC	
7		
13	ETERNA PLC.	
8		
13	FORTE OIL PLC.	
9		
14	JAPPAUL OIL & MARITIME SERVICES PLC	
0		
14	MRS OIL NIGERIA PLC.	
1		
14	OANDO PLC	
2		
14	RAK UNITY PET. COMP. PLC.	
3		
14	SEPLAT PETROLEUM DEVELOPMENT COMPANY LTD	
4		
14	TOTAL NIGERIA PLC.	
5		
14	ACADEMY PRESS PLC.	SERVICES
6		
14	AFROMEDIA PLC	
7		
14	ASSOCIATED BUS COMPANY PLC	
8		
14	C & I LEASING PLC.	
9		

Sn	Company	Sector
15 0	CAPITAL HOTEL PLC	
15 1	CAVERTON OFFSHORE SUPPORT GRP PLC	
15 2	DAAR COMMUNICATIONS PLC	
15 3	GLOBAL SPECTRUM ENERGY SERVICES PLC	
15 4	IKEJA HOTEL PLC	
15 5	INTERLINKED TECHNOLOGIES PLC	
15 6	JULI PLC.	
15 7	LEARN AFRICA PLC	
15 8	MEDVIEW AIRLINE PLC	
15 9	NEWREST ASL NIGERIA PLC	
16 0	NIGERIAN AVIATION HANDLING COMPANY PLC	
16 1	R T BRISCOE PLC.	
16 2	RED STAR EXPRESS PLC	
16 3	SECURE ELECTRONIC TECHNOLOGY PLC	
16 4	STUDIO PRESS (NIG) PLC.	
16 5	TANTALIZERS PLC	
16 6	THE INITIATES PLC	
16 7	TOURIST COMPANY OF NIGERIA PLC.	
16 8	TRANS-NATIONWIDE EXPRESS PLC.	
16 9	TRANSCORP HOTELS PLC	
17 0	UNIVERSITY PRESS PLC.	

Appendix B

List of Sample Companies Examined by the Study

Main Board Firms	Listing	Sector	Total
FTNCOCOA	2008	AGRICULTURE	4
LIVESTOCK	1978		
OKOMUOIL	1997		
PRESCO	2002		
AGLEVENT	1973	CONGLOMERATES	5
CHELLARAM	1974		
SCOA	1977		
TRANSCORP	2006		
UACN	1974		
ARBICO	1978	CONSTRUCTION/REAL ESTATE	3
JBERGER	1991		
UAC-PROPERTY	1998		
7UP	1986	CONSUMER GOODS	18
CADBURY	1976		
CHAMPION	1983		
DANGFLOUR	2008		
DANGSUGAR	2007		
FLOURMILL	1978		
GUINNESS	1965		
HONYFLOUR	2009		
INTBREW	1995		
NNFM	1978		
NASCON	1992		
NESTLE	1979		
NB	1973		
ENAMELWA	1979		
PZ	1972		
UNILEVER	1973		
UNIONDICON	2011		
VITAFOAM	1978		
EVANSMED	1979	HEALTHCARE	
FIDSON	2008		
GLAXOSMITH	1977		
MAYBAKER	1994		
MORISON	1978		
NEIMETH	1991		

PHARMDEKO	1979		
UNIONDIAGN	2007		8
CHAMS	2008	ICT	
COURTVILLE	2009		
Comp W-house-Grp	2013		
ETRANZACT	2009		
NCR	1979		
OMATEK	2008		6
ASHAKACEM	1990	INDUSTRIAL GOODS	
LAFARGE AFRICA PLC			
AVONCROWN	1991		
BERGER Paints	1974		
BETAGLAS	1986		
CAP	1977		
CCNN	1993		
CUTIX	1987		
FIRSTALUM	1992		
Dangote cement	2010		
GREIF NIG(VANLEER)	1979		
PAINTCOM	2008		
PORTPAINT	2008		
PREMPAINTS	1995		14
ALUMINIUM EXTRUSION IND. PLC.	1990	NATURAL RESOURCES	
B.O.C. GASES PLC.	1979		
MULTIVERSE MINING & EXPLORATION PLC	2008		
THOMAS WYATT NIG. PLC.[MRS]	1948		4
ETERNA PLC	1997	OIL AND GAS	
CONOIL PLC	1989		
Forte Oil (Afr Pet)	1978		
JAPAUOIL	1997		
MOBIL	1979		
MRS	1978		
SEPLAT PET	2009		
OANDO	1992		
TOTAL	1979		9
ACADEMY	1995	SERVICES	
AFROMEDIA	2009		
AIRSERVICE	2007		

ABCTRANS	2006	
CILEASING	1997	
CAPHOTEL	1986	
CAVERTON	2008	
DAAR COMM	2007	
IKEJA HOTEL		
INTERLINK	1993	
LEARNAFRCA	1996	
NAHCO	1996	
RTBRISCOE	1973	
REDSTAREX	2007	
TANTALIZER	2008	
TOURIST	2004	
TRANSEXPR	1993	
UNIVERSITY PRESS	1978	17
Total Number of Sample Companies		88



UUM
 Universiti Utara Malaysia

Appendix C

Summary of Selected Empirical Studies on Audit Committee Characteristics and Financial Reporting Quality

Author(s)	Country	Measure of Dependent Variable	AC Characteristic	Findings
Xie et al. (2001)	US	DA, Teoh et al. (1988)	AC meeting, AC expertise	-ve sig.
Klein (2002)	US	DA, Jones/Modified Jones (199)/(1995)	AC Independence	-ve sig.
Bedard et al. (2004)	US	DA, Jones/Modified Jones (199)/(1995)	AC financial expertise, AC independence	- ve sig
Yang & Krishnan (2005)	US	DA, Jones (1991)	AC financial expertise, AC shares, AC tenure	AC financial expertise, AC tenure, -ve sig. AC Shares, +ve sig.
Vafeas (2005)	US	Earnings surprise	AC meeting, AC stock ownership	- ve sig
Mangena & Pike (2005)	UK	Disclosure quality	AC accounting expert, AC stock ownership	AC accounting expert + ve sig., AC stock ownership - ve sig.
Lin et al. (2006)	US	Earnings restatement	AC size	- ve sig. with earnings restatement
Saleh et al. (2007)	Malaysia	DA, Jones model (1991)	AC independence, financial expertise, meetings, effectiveness	- ve sig.
Baxter & Cotter (2009)	Australia	DA, Dechow, Dihev (2002) Jones (1991)	AC financial accounting expert, AC legal expert	-ve sig.
Dhaliwal et al. (2010)	US	DA, McNichols (2002)	AC independence, AC financial accounting expert, AC	-ve sig

Author(s)	Country	Measure of Dependent Variable	AC Characteristic	Findings
			tenure	
Liu & Sun (2010)	US	DA, Jones/Modified Jones (199)/(1995)	AC size, AC tenure	-ve sig
Krishnan et al. (2011)	US	DA, Jones model (1991), Dechow & Dihev (2002), Francis et al (2005)	AC Size, AC independence, AC financial accounting expert, AC legal expert	-ve sig.
Fodio et al. (2013)	Nigeria	DA, Modified Jones (1995)	AC Size, AC independence	AC Size, - ve sig., AC independence, +ve sig.
Sharma & Kuang (2014)	New Zealand	DA, Kothari et al. (2005)	AC Size, AC independence, AC accounting expert	-ve sig.
Abernathy et al. (2014)	US	Reporting timeliness	AC public accounting expert, AC financial accounting expert, AC tenure	-ve sig
Badolato, Donelson & Ege (2014)	US	DA, Modified Jones model (1995)	AC financial accounting expertise	-ve sig.
Ormin et al. (2015)	Nigeria	DA, Dechow & Dichev (2002)	AC independence	-ve sig.
Bruynseels & Cardinaels (2014)	US	Ball & Shivakumar (2006)	AC chair	+ve sig.
Sultana (2015)	Australia	Conservatism, Ball & Shivakumar (2005)/ Basu (1997)	AC financial accounting expertise, AC meetings	+ve sig.
Khalil & Ozkan (2016)	Egypt	DA, Kothari et al (2005)	AC independence	+ve sig.
Gao & Huang (2016)	US	Restatement	AC independence	+ve sig.
Marzuki et al. (2016)	Malaysia	Conservatism,	AC	+ve sig.

Author(s)	Country	Measure of Dependent Variable	AC Characteristic	Findings
		Basu (1997)	independence, AC financial accounting expert	
Kibiya et al. (2016 b)	Nigeria	DA, McNichols (2002)	AC independence, AC financial accounting expert	-ve sig.
Ibrahim et al. (2016)	Nigeria	REM, Roychowdhury (2006)	AC size, independence, financial literacy & meetings	-ve sig.
Farber et al. (2016)	US	DA, Kothari et al (2005)	AC financial accounting expert	-ve sig.
Ittonen et al. (2016)	US	DLLP	AC financial accounting expert, AC former Auditor	-ve sig.
Ahmed & Che-Ahmad (2016)	Nigeria	Audit reporting lag	Female AC members	-ve sig.
Abdullah & Ku-Ismail (2016)	Malaysia	DA, Kothari et al (2005)	Female AC members	-ve sig.
Ismail & Kamarudin (2017)	Malaysia	Income smoothing, Tucker & Zarowin (2006)	AC size, AC independence,	-ve sig.
Oluoch et al. (2017)	Kenya			
Zalata et al. (2018)	US	DA, McNichols (2002)	Female AC expertise	+ve sig.
Ghafran & Yasmin (2018)	UK	Audit reporting lag	AC chair expertise, AC tenure	-ve sig.
Poretti et al. (2018)	15 European countries	Abnormal stock returns, abnormal trading volume	AC independence,	-ve sig.
Bajra & Čadež (2018)	Europe	DA, Modified Jones model (1995)	AC effectiveness and competences	-ve sig.

Note: AC = audit committee, DA = discretionary accruals, DLLP = discretionary loan loss provision, LN = natural logarithm, REM = real earnings management, +ve sig. = positive significant, -ve sig. = negative significant.



Appendix D

Summary of Selected Empirical Studies on Audit Committee Characteristics and Audit Quality

Author(s)	Country	Measure of Dependent Variable	AC Characteristic	Findings
Carcello et al. (2002)	US	LN Audit fees	AC independence, AC meeting, AC expertise	+ve insig.
Abbott et al. (2003)	US	LN Audit fees	AC Independence, AC expertise	+ve sig.
Lee & Mande (2005)	US	LN Audit fees	AC effectiveness, AC size, AC independence, AC financial expertise, AC meetings	+ve sig
Goodwin-Stewart & Kent (2006)	Australia	LN Audit fees	AC existence, AC meetings, AC independence and AC financial expertise	+ve sig
Zhang (2007)	US	Big 4 auditors	AC effectiveness	+ve sig.
Boo & Sharma (2008)	US	LN Audit fees	AC size, AC independence	+ve sig.
Krishnan & Visvanathan (2009)	US	LN Audit fees	AC financial accounting expertise	-ve sig.
Hoitash & Hoitash (2009)	US	LN Audit fees	AC size, AC meetings, AC financial accounting expert	+ve sig.
Ittonen et al. (2010)	US	LN Audit fees	Female AC chair	-ve sig.
Redmayne et al. (2011)	New Zealand	LN Audit fees	AC formation	+ve sig.
Zaman et al. (2011)	UK	LN Audit fees	AC effectiveness, AC meetings, AC independence and AC	+ve sig.

Author(s)	Country	Measure of Dependent Variable	AC Characteristic	Findings
			financial expertise	
Alves (2013)	Portugal	Big 4 auditors	AC existence	+ve sig.
Chan et al. (2013)	US	LN Audit fees	AC tenure	-ve sig.
Cohen et al. (2014)	US	LN Audit fees	AC financial accounting experts, AC supervisory experts, AC industry expert	+ve sig.
Ejeagbasi et al. (2015)	Nigeria	Big 4 auditors	AC composition	+ve sig
Aldamen et al. (2016)	Australia	LN Audit fees	female AC members	+ve sig
AbdulMalik & Che-Ahmad (2016)	Nigeria	LN Audit fees	AC independence	+ve sig
Ahmed & Che-Ahmad (2016)	Nigeria	Audit reporting lag	Female AC members	-ve sig.
Naser & Hassan (2016)	Dubai	LN Audit fees	Board attributes, AC size, AC	
AlQadasi & Abidin (2018)	Malaysian	LN Audit fees	independence, AC financial expertise, AC meetings	+ve sig.
Lai et al. (2017)	US	LN Audit fees	female AC tenure	+ve sig.
Wan Hussin et al. (2018)	Malaysian	Audit reporting lag.	AC size	- ve sig
Ghafran & Yasmin (2018)	UK	Audit reporting lag	AC chair expertise, AC tenure	-ve sig.
Jizi & Nehme (2018)	US	LN Audit fees	AC financial expert	+ve sig.

Note: AC = audit committee, LN = natural logarithm, +ve sig. = positive significant, -ve sig. = negative significant.

Appendix E

Summary of Selected Empirical Studies on Audit Quality and Financial Reporting Quality

Author(s)	Country	Measure of Dependent Variable	AC Characteristic	Findings
Franke et al. (2002)	US	DA, Jones (1991), Modified Jones Model (1995)	LN Audit fees, Big 5	-ve sig.
Hoitash et al. (2007)	US	DA, McNichols (2002), Francis et al. (2005)	LN Audit fees	-ve sig.
Mitra et al. (2009)	US	Kothari et al. (2005)	LN Audit fees	-ve sig.
Abidin & Ahmad-Zaluki (2012)	Malaysia	Audit reporting lag	Big 4	-ve sig.
Abernathy et al. (2014)	US	Reporting timeliness	LN Audit fees	-ve sig.
Carmona et al. (2015)	Spain	DA, Ashbaugh et al. (2003)	LN Audit fees, Non-audit service fees, Big 4	-ve sig.
Aliyu et al. (2015)	Nigeria	DLLP, Beaver & Engel (1996)	LN Audit fees, Big 4	-ve sig.
Khalil & Ozkan (2016)	Egypt	DA, Kothari et al. (2005)	Big 4, Audit tenure	-ve sig.
Saleem & Alzoub (2016)	Jordan	DA, Modified Jones (1995)	LN Audit fees, Big 4	-ve sig.
AbdulMalik & Che-Ahmad (2016)	Nigeria	DA, Kothari et al. (2005)	audit fees, Big 4	-ve sig.
Asthana et al. (2018)	US	DA, Kothari et al. (2005)	Audit fees	-ve sig.
Asthana et al. (2018)	US	Big 4, LN Audit fees	Total Accruals	-ve sig.
Al-Dhamari et al. (2018)	Malaysia	LN Audit fees	Big4, related party transactions	+ve sig.

Note: DA = discretionary accruals, DLLP = discretionary loan loss provision, LN = natural logarithm, +ve sig. = positive significant, -ve sig. = negative significant.