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BOARD CHARACTERISTICS AND FINANCIAL REPORTING QUALITY IN NIGERIA: THE MODERATING EFFECTS OF BIG 4 AND AUDIT TENURE

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DOCTOR OF PHILOSOPHY
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CERTIFICATION OF THESIS WORK (Ph.D)

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ABSTRACT

Accounting and auditing practices in Nigeria suffer from institutional weaknesses in terms of regulations, compliance, and enforcement of standards that resulted to poor financial reporting quality on firms in Nigeria. Literature review reveals the missing link between board characteristics and financial reporting quality. Based on this gap this research attempts to examine the relationship between board characteristics, audit quality, and financial reporting quality. Moreover, the moderating effect of audit quality has been examined to further explain the financial reporting quality in Nigeria. Secondary data collected from the annual reports over the period 2011-2015. Multiple regression analysis employed to determine the effect of the focal variables indicating that audit committee size, and audit committee expertise have a positive and significant impact on financial reporting quality. However, board independence is significantly negative. Furthermore, the results reveal a statistically significant association of the interaction of auditor tenure and Big 4 with board characteristics and financial reporting quality. The audit tenure positively moderates audit committee expertise and negatively moderates board independence, audit committee diligence, and audit committee size and financial reporting quality. Furthermore, Big 4 positively moderates block shareholding and negatively moderates audit committee diligence and financial reporting quality. This indicates that the Big 4 and auditor tenure have a monitoring ability in mitigating and thus, enhancing financial reporting quality of Nigerian listed firms. In addition, the result reveals that director shareholding and audit committee independence are either vain or less active in controlling the management to ensure high-quality reports. Theoretically, this study indicates that board characteristics possess the monitoring ability that could enhance financial reporting quality. In addition, it highlights that the high audit quality and board characteristics exert influence on financial reporting quality. The results have valuable practical implications for stakeholders, the board of directors, company management and researchers.

Keywords: financial reporting quality, board characteristics, audit quality, block shareholding.

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ABSTRAK

Amalan perakaunan dan pengauditan di Nigeria agak lemah akibat daripada kekangan institusi yang terdapat dalam peraturan, pematuhan, dan penguatkuasaan standard yang membawa kemerosotan kualiti pelaporan kewangan firma-firma di Nigeria. Rumusan karya telah mengenalpasti bahawa terdapat jurang hubungan antara ciri-ciri lembaga pengarah dan kualiti pelaporan kewangan. Berdasarkan jurang yang telah dikenalpasti, kajian ini cuba mengkaji hubungan antara ciri-ciri lembaga pengarah, kualiti audit, dan kualiti pelaporan kewangan. Disamping itu, impak moderat berasaskan Kualiti audit juga telah dikaji bagi menjelaskan dengan lebih lanjut tentang hubungan kualiti pelaporan kewangan di Nigeria. Data sekunder dikumpul daripada laporan tahunan sepanjang tempoh 2011-2015. Analisis regresi berganda digunapakai untuk menentukan kesan pembolehubah saiz jawatankuasa audit, kepakaran jawantankuasa audit mempunyai kesan positif dan signifikan terhadap kualiti pelaporan kewangan Walau bagaimanapun, kebebasaan lembaga pengarah adalah signifikan secara negatif. Tambahan lagi, keputusan kajian menunjukkan interaksi yang signifikan statistiknya bagi tempoh khidmat juruaudit dan ‘Big 4’ dengan ciri-ciri lembaga pengarah dan kualiti pelaporan kewangan. Di samping itu,‘Big 4’ telah memoderat pemegangan blok secara positif dan secara negatif terhadap ketekunan jawatankuasa audit terhadap kualiti pelaporan kewangan. Ini menunjukkan bahawa kebolehan ‘Big 4’ dan tempoh khidmat juruaudit mempunyai keupayaan pemantauan dalam mitigasi dan ianya, boleh meningkatkan kualiti pelaporan kewangan firma yang tersenarai di Nigeria. Disamping itu, hasil kajian ini menunjukkan bahawa pemegangan pengarah dan kebebasan jawatankuasa audit adalah samaada sia-sia atau kurang aktif dalam mengawal pihak pengurusan bagi memastikan laporan kewangan yang tinggi kualitinya. Secara teorinya, kajian ini menggambarkan ciri-ciri lembaga pengarah yang mempunyai keupayaan memantau juga meningkatkan kualiti pelaporan kewangan. Selain itu ia menonjolkan bahawa kualiti audit mapan dan ciri-ciri lembaga pengarah mempengaruhi terhadap kualiti pelaporan kewangan. Hasil kajian ini mempunyai implikasi praktikal yang berguna bagi pemegang taruh, lembaga pengarah, pihak pengurusan syarikat dan penyelidik-penyelidik.

Kata kunci: kualiti pelaporan kewangan, ciri-ciri lembaga pengarah, pemegangan blok,

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LIST OF ABBREVIATIONS

AAA	American Accounting Association
AC	Audit Committee
ACC	Audit Committee Characteristics
ACE	Audit Committee Effectiveness
ACIND	Audit Committee Independence
ACM	Audit Committee Meeting
AEP	Awards for Environmental Protection
AICPA	American Institute of Certified Public Accountants
APB	Auditing Practicing Board
AR	Auditor Rotation
BIND	Board Independence
BMEET	Board Meetings
BSHOLDN	Board Shareholdings
BSIZE	Board Size
CAC	Corporate Affairs Commission
CAMA	Company and Allied Matters Act
CEO	Chief Executive Officer
CINCENT	CEO Incentive
CSR	Corporate Social Responsibility
CG	Corporate Governance
FASB	Financial Accounting Standards Board
FCCG	Finance Committee on Corporate Governance
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAO	General Accounting Office
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IASs	International Accounting Standards
ICAEW	Institute of Chartered Accountants in England and Wales
FGN	Federal Government of Nigeria

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FSIZE	Firm Size
IFRSs	International Financial Reporting Standards
NSE	Nigerian Stock Exchange
OLS	Ordinary Least Square
PROF	Profitability
SECN	Securities and Exchange Commission of Nigeria
UK	United Kingdom
US	United States

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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Financial reporting is primarily concerned with users who are external to the reporting firm. Schugart, Benjamin, Francia, and Strawser (2003), and Mahboub (2017) identified the users of financial reports to include the owners of enterprises, lenders, suppliers, potential investors, and potential creditors. Others include employees, customers, stockholders, financial analysts, taxing authorities, regulatory authorities, trade associations, and teachers. The users use the financial information to carry out judgments and decide accordingly (American Accounting Association (AAA), 1966). Schugart *et al.* (2003) and Chen, Hope, Li, and Wang (2011) indicate that a primary focus of financial reporting is the information disclosed concerning the financial statement of a business. In their words, a vital objective of financial reporting is to provide information that is useful to business decision-makers.

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According to Georgiou and Roberts (2004) on the Accounting Standard Board (ASB) Exposure Draft 1995, opines that the financial statements are to provide the necessary information about the state of affairs, and financial performance of the organization that will come in handy to a variety of stakeholders for passing judgment on the activities of management and for valid economic choices. The chief objective of financial reporting according to Deliotte (2011) is to portray the position and performance of the entity in question so that investors in equity and debt, among other stakeholders, can make decisions based on accurate information regarding potential risks and returns.

Financial reporting is an effective tool for improving investor's protection. In this regard, the Company and Allied Matters Act CAMA (2004) of Nigeria (as amended) mandates that every company keep its accounting records in accordance with the provision of the Act. This is because high financial reporting quality could be an advantage to the minority investors. Good financial reporting could enhance effective management of enterprises and better financial statements of the companies (Frederick, 2000; Zhou, Owusu-Ansah & Maggina, 2018). In the same vein, credible financial reporting improves the public's understanding of enterprises and their relationship with society. Reliance on credible financial reporting perceived as the aspect of financial markets regulation.

Beest, Braam and Boelens (2009) confirmed that the main purpose of financial reporting is to provide detailed quality financial information relating to organizations. FASB (1991) added that such information must come in handy for economic decision-making. Norwani, Mohammad and Chek (2011), and Alzoubi (2014) posit that providing high-quality financial reporting information has a positive association between the providers of capital and other stakeholders in making investment, credit, and other decisions relating to resource allocation. The information thus provided expected to go a long way in enhancing the overall market efficiency and improve organizational performance that could lead to a credible financial statement and enhance investors' confidence (Fama & Jensen, 1983). Previous studies have highlighted that high-quality financial reporting sends economic signals such as increased investment efficiency and investors' confidence (Al Azeez, Sukoharsono & Andayani, 2019; Bushman & Smith, 2001; Healy & Palepu, 2001; Leuz & Wysocki, 2016).

Bhattacharyya (2012) opined that firm governance mechanism is strongly associated with corporate financial reporting quality. It is difficult to isolate financial reporting quality from corporate governance because the product of financial reporting depends on the strength of corporate governance. According to him, shareholders have the responsibility to receive timely information and promptly act on financial matters of the company. This is consistent with the principle of financial reporting and corporate governance. Good corporate governance, therefore, initiates a system that would put in place processes that can facilitate financial reporting quality, foster healthy financial record keeping the culture, and bring about a vibrant financial reporting system (Alnabsha, Abdou, Ntim & Elamer, 2018). Poor corporate governance, however, could create an environment that may not promote good reporting and thus, causing investors and other parties to limit their trust in the financial data (Blackburne, 2014). Corporate governance also includes relationships among the stakeholders of the company and a definition of the goals for which is governed (Cadbury Committee, 1992). Corporate governance is not just about the process by which directors of companies make decisions. It is also about the way directors are to be transparent and held accountable particularly, through financial reporting (Uwuigbe, Eluyela, Uwuigbe, Obarakpo, and Falola, 2018).

Consequently, the issues of weak corporate governance that leads to financial reporting failures could have an adverse effect on the economy both at international and national levels. Bhagat and Bolton (2009) asserted in the UK where high profile corporate failures such as Maxwell Communications, Polly Peck and Barrings were associated with corporate governance and financial reporting failures. The collapse of companies in Europe includes Parmalat in Italy. Parmalat hid its losses, overstated its assets,

recorded non-existent assets, understated its debt and diverted cash to the family members of the CEO and the president of the company. Pasminco, Harris Scarfe and Spedley Securities, and Tricontinental are cases of financial reporting failure occurred in Australia. In addition, France known for Credut Lyonnais corporate failures. Germany corporate failures were of Metagesellschaft and Schneider, while in the US, the collapse of Britol, Xerox, WorldCom, and Enron linked to corporate failures. At Enron, the board and management rewarded themselves with stock option and exercised undue pressure on rating agencies to ensure good investment rating in propping up their company's share price. Similarly, Roman Corporation and Canadian Commercial Bank in Canada also experienced governance failures (Nwonyuku, 2012; Norwani *et al*., 2011).

Japan has the case of Yamaichi and Indonesia has cases of Bank Ippo and Kimia Farma (Nwonyuku, 2012). Transmile, Port Klang Free Zone, Mega Media, and Technology Resources Industries faced with weak corporate governance and financial reporting failures in Malaysia (Norwani *et al*., 2011). Within the African continent, South Africa also witnessed the corporate failure of Olivencia, and Nigeria had cases of corporate failures involving Oceanic Bank, Intercontinental Bank, Cadbury Nigeria Plc and Afribank Plc (Salaudeen *et al*., 2015; Omoh & Komolafe, 2015).

In light of this puzzle, auditors, audit committee members, and managers have now made a serious attempt to will improve the prevailing poor financial reporting quality and different scholars have come up with a definition of financial reporting quality (Jonas & Blanchet, 2000). The Financial Accounting Standards Board [FASB] (2011) defined financial reporting as activities which are intended to serve the informational

needs of external users who lack the authority to prescribe the financial information they want from an enterprise and therefore must use the information that management communicates to them.

Lewis and Pendrill (1996) added that this definition is concerned with financial information that is given to users rather than information which is required by an individual or group of individuals who are in a position to enforce their request. Schugart *et al.* (2003) posit that financial reporting includes not only the financial statements but also other forms of information such as annual reports filed with the Securities and Exchange Commission (SEC), news releases, and management forecast. Financial reporting can also be defined as a life wire instrument for evaluating and monitoring managerial actions and measuring the performance of directors including the overall roles of the board in maintaining effective corporate supervision (Nwonyuku, 2012). Ekineh (2009) believes that financial information is a key barometer for measuring the status of a business entity and it should be timely, accurate and reliable. Therefore, financial reporting quality is defined as the accuracy of financial statements in disclosing the financial status in the annual report and providing useful information for financial forecasts. This would strengthen investors' confidence and ensure credible decisions about providing resources in an organization (Uwuigbe *et al*., 2018).

In 2011, the Securities and Exchange Commission (SEC) of the Federal Republic of Nigeria revised the code of corporate governance for public companies (Watson, 2015). It stipulates that companies should address the interests of their stakeholders' such as investors, consumers, and the public (Sharma, Boo & Sharma, 2008). In

addition, the code provides that the board should report the nature and extent of its financial reporting quality and practices annually. The board of directors identified as the highest level of control for organizational decision-making (Fama & Jensen, 1983; Ofoegbu *et al.,* 2018). The board's major functions includes its monitoring role and strategic role. The former involves hiring, firing and compensating managers, while the latter encompasses advising managers on important key decisions.

Similarly, block holder ownership seems to have an influence on financial reporting quality. However, this claim remains inconclusive in extant literature (Wang, Wong & Xia, 2008; Dou, Hope, Thomas & Zou, 2018). While it was argued by some scholars that their presence protects the interests of the minority shareholders, others have argued from the expropriation point of view (Derrien, Kecskes & Thesmar, 2013; Firth, Fung & Rui, 2007). For example, La Porta, Lopez-de-Silanes and Shleifer (1999) reported block holders' ownership as a source of agency problem in companies because of the tendency in them to extract private profits of control to the disadvantage of the minority shareholder. On the other hand, Cronqvist and Fahlenbrach (2008) asserted that block holders' ownership does not show an effect on financial reporting quality.

In addition, the director ownership structure recognized by agency theory suggests that shareholding by CEOs can help align their interest with those of the shareholders, thus mitigating the agency conflicts (Srinivasan, 2005; Fama & Jensen, 1983). Jensen and Meckling (1976) posit under the convergence of interest hypothesis that higher equity holdings by the CEOs will align their interest with those of the shareholders. Thus,

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ownership by directors could be an important mechanism to enhance financial reporting quality in firms (Gaynor, Kelton, Mercer & Yohn, 2016).

The responsibilities of the audit committee are increasingly becoming very vital in the governance mechanisms of many corporations (Sultana, Sigh, Zahn & Mictchell, 2015). Said, Zainuddin, and Haron (2009) and Zhang, Zhou and Zhou (2007) asserted that the audit committee plays a duty in studying the company's process of confirming high financial reporting quality. Haron, Jantan and Pheng (2005) defined the audit committee as a standing committee set up by the board with the objective of contributing to effective board characteristics and ensuring reliable financial reporting (Aifuwa & Embele, 2019).

In addition, past studies show results of the relationship between board characteristics and financial reporting quality to be inconclusive. For example, Chakroun and Matoussi (2012) and Haniffa and Cooke (2005) document non-executive directors to be negatively related to financial reporting quality, while Haji (2013) and Mohd Ghazali and Weetman (2006) state no relationship. In addition, Said *et al.* (2009) found no relationship between board size and financial reporting quality. However, the research conducted by Jo and Harjoto (2011) found a positive relationship which is similar to the findings by Haji (2013) and Sun, Salama, Hussainey and Habbash (2010).

DeAngelo (1981) and Vanstraelen (2000) asserted that audit quality detects frauds and accounting misstatement and then express them in a suitable audit opinion. The audit quality could also help reduce the information asymmetry between the management

and the stakeholders (Alaryan, 2017). In addition, audit quality could enhance the relationship between the independent and dependent variable that could lead to high financial reporting quality. These dimensions of the audit quality describe the auditor's ability to provide higher quality information that would show the true economic circumstances of the client financial statement. In prior studies, the dimensions of audit quality, such as auditor independence and auditor competence that could enhance financial reporting quality, has been considered by Fairchild (2008), Alrshah (2015) and one more. Brooks (2011) and Stoel, Havelka and Merhout (2012) used accrual quality and auditor specialization and client importance as dimensions for audit quality. However, Fairchild (2008) identified Big 4 as an important determinant of audit quality. Tepalagul and Lin (2015) also considered audit tenure as vital in the determination of audit quality. The quality of auditor and the duration of the auditor are very important in an organization (Spira, 2007; Solomon, 2010; Ziaee, 2014). This is because the quality of the auditor could ensure a more credible report while the longer the auditor serves the more such firm may have the ability to detect errors or manipulations in the accounts (Adeniyi & Mieseigha, 2013; Suryanto, Thalassinos & Thalassinos, 2017). In addition, past literature posits that the shorter the audit rotation can have an adverse effect on the independence of the auditor that later jeopardize the audit report (Carcello & Nagy, 2004). These could contribute to the quality of the financial report produced and enhance the financial reporting quality of the firm (Carcello & Nagy, 2004; Diang & Jia, 2012; Fairchild, 2008; Khurana & Raman, 2004).

The importance of financial reporting quality underscored from past studies and the variables that could influence it is mentioned above (Biddle, Hilary & Verdi, 2009).

The findings from previous studies also indicate the relationship of inconclusiveness with financial reporting quality. Baron and Kenny (1986) suggested that where there are mixed findings between an outcome and predictor variables a moderator should be used to explain the relationship.

1.2 Problem Statement

The problem of poor financial reporting quality has far-reaching consequences for the economy since poor financial reporting quality not only decrease foreign investment inflow due to loss of investor's confidence but also result in the collapse of companies (Norwani *et al.,* 2011). Financial reporting quality has been an important aspect of information involved in achieving access to global capital especially in emerging economies (Fathi, 2013; Popova, Gerorgakopoulos, Sotiropoulos & Vasileiou 2013; Peyravan, 2016; Mahboub, 2017). Companies in such economies, encounter obstacles attaining access to global capital due to the issues of poor financial reporting. However, quality financial reporting been claimed to help reduce such barriers (Gaynor *et al*., 2016; Kaklar, Kangarlouei & Motavassel, 2012; Labelle, Gargouri & Francoeur, 2010). Therefore, higher financial reporting quality is necessary to enhance investors' confidence and investment efficiency of an organization for developed and developing economies who are trying to attract capital flows.

The importance of high financial reporting quality became recognized after some high profile corporate scandals occurred globally, which suggested that financial reporting quality needed further scrutiny (Bhattacharyya, 2012; Beuselinck, Blanco & Garcia Lara, 2013). For instance, in the UK there were high profile corporate failures of large number of companies like Polly Peck and Maxwell Communication, while the collapse

of WorldCom, Enron and Britol occurred in the US. Furthermore, in Europe, the same happened at Schneider in Germany and Credit Lyonnais in France. Lastly, Pasminco and Centaur in Australia, Castor Holdings and Canadian Commercial Bank in Canada, Yamaichi in Japan, Kimia Farma in Indonesia, Transmile and Mega Media in Malaysia, all have suffered the same corporate failure (Norwani *et al*., 2011; Nwonyuku, 2012).

One of the factors that facilitate higher financial reporting quality is a good corporate governance mechanism (Al-Shear, Salama & Toms, 2017). Strong corporate governance mechanism and institutions in firms over the years have received policymaker's attention as an effective tool to promote sound reporting and disclosure quality. The case of Enron, WorldCom, Adelphia, Hollinger, Tyco, Xerox and Parmalat in the early millennium prompted the development of corporate governance code across the globe and establishments in Nigeria are not an exempted (Bebchuk, Cohen & Ferrell, 2008; Buslerier & Gabteni, 2010; Popova *et al*., 2013; Ofoegbu *et al*., 2018). Consistent with the agency theory, the code of corporate governance imposed on the board of directors a great deal of responsibility with respect to advisory and monitoring role (Jensen & Meckling, 1976; Ofoegbu *et al*., 2018). Hence, board characteristics could have positive impact in enhancing financial reporting quality.

Consequently, the monitoring role of board characteristics, audit committee, and external audit are widely recognized and agreed to improve and promote sound financial reporting and disclosure quality (Abdullatif & Al-Khadash, 2010; Albring, Robinson & Robinson, 2014; Adams, Benjamin, Hermalin &Weisbach, 2010; Haji, 2013). Unfortunately, in Nigeria, the board of director's ability in discharging their

statutory monitoring role seems to be in doubt (FRCN, 2015). Reports show that the boards are either complacent or less active in controlling the management due to lack of enforcement and adequate compliance with the code of corporate governance (Ofoegbu *et al*., 2018). Adegbite (2012) posits that the ineffectiveness and the high level of corruption of the boards and the audit committee in performing their responsibilities have led to poor financial reporting quality.

However, prior researches have also shown that the chief cause of poor financial reporting quality is due to the ineffective corporate governance, weak compliance, and enforcement of standards (Berndt, 2007 and Bashir, 2012). This emphasis on governance underscored by issues of financial reporting quality that arose in the wake of financial reporting frauds in Enron, WorldCom, Adelphia, Hollinger, Tyco, Xerox and Parmalat (Cohen *et al*., 2004; Larcker & Richardson, 2004; Wu, 2002). In addition, in 2018, according to the report of Corruption Perception Index (CPI) Nigeria ranked 32 out of the 52 African countries assessed in 2017. In the West African sub-region, Nigeria is the second-worst country out of the seventeen (17) West African countries assessed, which suggests how weak the country's corporate governance has been. Furthermore, the situation is worsening because of the influence of a number of the country's adversative attributes are highlighted such as accounting unprofessionalism, socio-cultural influences, political interference, opaque economic structure, poor leadership, lack of training of board of directors, and the archaic legal system. These attributes also weaken the country's corporate governance structures (Adegbite, 2012; Okike, 2007).

Many studies conducted in developed economies such as in the UK and the US on the issue of corporate governance and financial reporting quality are inconsistent due to the variables and sample size applied. Some studies found that the corporate governance characteristics such as board structure, ownership, and audit committee have significant positive influence on the financial reporting quality (Reddy, Abidin & Yu, 2015; Ozkan, 2007; Samaha, Khlif, and Hussainey, 2015; Zhou *et al* ., 2018). While other studies reported that, the corporate governance characteristics could have either positive or negative influence. Yet, others such as studies by Al-Shear and Salama (2017), Popova *et al*. (2013), Dou, Hope, Thomas & Zou (2018), Omer and Shelly & Tice (2019) reported no significant influence on the financial reporting quality.

Furthermore, in the developing countries, there are many studies that investigated the issue of corporate governance and financial reporting quality and found a positive impact of corporate governance characteristics such as board structure, ownership and audit committee on the financial reporting quality (Othman, Ishak, Arif and Aris, 2014; Alaryan, 2017). In addition, some studies in the past literature found a negative or insignificant influence of corporate governance on the financial reporting quality (Al Azeez *et al*., 2019). This implies that the findings are inconsistent following the results presented by the authors.

While, there has been extensive research in these areas in the developed countries (Popova *et al*., 2013; Cho *et al*., 2012; Salama *et al*., 2012), it is noticeable that the results of the previous studies in developed and developing countries are inconsistent. Furthermore, in Nigeria, the studies are few, not consistent, piecemeal studies, utilizing

smaller sample sizes, most of which used the banking sector which is under the government regulatory agency (Nyor, 2013 and Hassan, 2013). In the developing countries there are little empirical research and lack of in-depth studies. Furthermore, the studies done in Nigeria are also inconsistent. While Nwonyuku (2012) in Nigeria asserted the negative role of the board of directors in failing to meet high financial reporting quality. Furthermore, another study, Onuorah and Friday (2016) in Nigeria reported that board independence and audit committee size is negatively related to financial reporting quality. Further study by Dabor and Dabor (2015) found that there is no significant relationship between board size, expertise, and financial reporting quality. For example, Aifuwa and Embele (2019) in Nigeria documented that board expertise was positive and significant with financial reporting quality while board independence and board diversity were found insignificant with financial reporting quality. In addition, while, Uwuigbe and Ajibolde (2013) use only forty (40) firms (both financial and non-financial firms), Owolabi (2010) even lesser twenty (20) firms, which could not be generalised. Uwuigbe *et al.* (2018) in Nigeria reported that foreign executive on the board has a positive significant relationship with timeliness of financial report. Additionally, piecemeal studies in Nigeria have examined the effect of some board characteristics (Ofoegbu *et al.*, 2018), audit committee (Bello, 2013), Big 4 (Okere, Ogundipe, Oyedeji, Eluyela & Ogundipe, 2018), and audit tenure (Salaudeen *et al.,* 2015), yet there remains dearth on the link between board characteristics and financial reporting quality and therefore, a further comprehensive research is highly needed. The utilization of larger sample size, in depth study, comprehensive study and using of non-financial firming needs would be of importance for further study.

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In addition, Baron and Kenny (1986) recommend that if there is inconsistency in the relationship between predictor and outcome variables, a moderator should be introduced to enhance the relationships of the variables. Several variables were found to influence the relationship between board characteristics and financial reporting quality. For instances ownership structure (Beamish & Lupton, 2016) and audit quality (Balakrishnan, Core, & Verdi, 2014). Generally, audit quality plays an important role in maintaining an efficient market environment (DeAngelo, 1981). This is because an independent audit quality underpins confidence in the credibility and integrity of financial statements, which is essential for well-functioning markets and enhanced financial reporting quality. The influence of audit quality related to auditor's experience, expertise, independence and the quality of audit work could enhance financial reporting quality (Brooks, 2011).

Investors and financial analyst see the credibility of financial reporting quality as a function of the size of the audit firm (Guo, 2016). The Big 4 audit firm can produce better quality reports than non-Big 4 and smaller audit firms (Ding & Jia 2012). Studies have reported the difference between these qualities between Big 4 and non-Big 4 firms. The Big 4 firms have adequate and in-depth fieldwork and increase investment procedure that could assist in detecting errors, frauds, and misstatement in the accounting system (Yasar, 2013). In addition, the Big 4 auditors have the ability to provide higher audit quality because they have many numbers of clients, vast resources, technology and trained staff for the audit work. Furthermore, they could not care to lose any client due to unprofessionally work ethic and breach of the process (DeFond & Zhang, 2014; Okere *et al.*, 2018). For example, Jones, Temouri, and Cobham (2018) attest to a strong correlation and causal link between the size of MNEs

tax heaven network and the use of Big 4 as a moderator. In addition, Bala, Amran and Shaari (2018) asserted that the Big 4 could detect financial misstatement and fraudulent practices in the financial statement and thus could enable monitoring and evaluation of financial reports.

Similarly, the relevance of auditor tenure is evident in literature as seen in stating that the longer the length of auditor tenure, the more the dependence on customers (Daniels & Booker, 2011). An earlier study Watts and Zimmerman (1990) has revealed that audit tenure has an important role in audit quality. Recently, Jorjani, Safari and Gerayti (2018) used audit tenure as a moderating effect of auditor specialization on the relationship in the firms on the Tehran stock exchange to examine the effectiveness of audit tenure. Furthermore, DeFond and Zhang (2014) and Barbadilo and Aguilar (2008) and Knechel, Sofla and Svanstrom (2010) suggested that longer auditor tenure could enhance the auditor relationship with the clients by improving the accounting and internal control system and regulate the irregularities in the management financial reporting process. Also, Gonzalez-Diaz, Garcia-Fernandez and Lopez-Diaz (2015) and Boone, Khurana and Raman (2008) opined that information from investors and audit tenure will enhance audit quality. However, Firth, Rui & Wu (2012) and Daniels & Booker (2011) investigated the relationship between mandatory audit firm tenure and short tenure, and they reported a positive and significant relationship. This asserted that audit tenure with a short period enhances the independence of the auditor and has a significant positive association with financial reporting quality; thereby implying that shorter audit tenure could enhance financial reporting quality.

Furthermore, the enforcement of corporate governance code and standards could further assist in enhancing financial reporting quality. However, it has been observed that the effectiveness of the board in Nigeria is impaired by information asymmetry, which then leads to an agency problem between the management and the stakeholders, whereby managers exploit the residual claimants by making opportunistic decisions to their benefits (Uwuigbe *et al*., 2018). There has been relatively little empirical work on this relationship in developing countries, there remains dearth on the link between board characteristics and financial reporting quality. Previous studies show that there are inconsistent, of smaller sample sizes, not comprehensive and most of the studies used banking sector. Therefore, further comprehensive research is highly needed with non-financial sector, large sample sizes, and more variables that could enhance financial reporting quality. Furthermore, audit quality used as a moderator in previous researches focused on the relationship between board characteristics financial reporting quality. However, to the best knowledge of the researcher, there has been no work ever done, which has combined Big 4 and audit tenure as a moderator. Consequently, the Big 4 and audit tenure were introduced as a moderator between board characteristics and financial reporting quality in achieving comprehensive insights and deeper understanding of the relationship. Considering the above problem, the following research questions were raised.

1.3 Research Questions

The study uses non-listed companies in Nigeria in order to get a clear picture of financial reporting quality and board characteristics in each of the firms and to investigate quantitatively. It observed issues, as stated in the research problem, and this led to the following questions. The questions are designed primarily to hypothesize

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and analyse the relationship that exists between the board characteristics practice of the firm and the financial reporting quality moderated by audit tenure and Big 4.

1. What is the effect of board characteristics on financial reporting quality in the Nigerian Stock Exchange?
2. What is the effect of Big 4 firms in moderating the relationship between board characteristic and financial reporting quality in the Nigerian Stock Exchange?
3. What is the effect of auditor tenure in moderating the relationship between board characteristics and financial reporting quality in the Nigerian Stock Exchange?

1.4 Research Objectives

The main aim of this research is to investigate the relationship between board characteristics with financial reporting quality in Nigeria. The specific objectives are:

1. To investigate the relationship between board characteristics and financial reporting quality in the Nigerian Stock Exchange.
2. To examine if Big 4 firms moderate the relationship between board characteristics and financial reporting quality in the Nigerian Stock Exchange.
3. To examine if auditor tenure moderates the relationship between board characteristics and financial reporting quality in the Nigerian Stock Exchange.

1.5 Motivation of the study

The general motivation for this study is the poor financial reporting quality and the weak enforcement and compliance of standards that is evident in the annual reports of companies quoted on the Nigerian Stock Exchange (NSE). This is against the

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expectation of stakeholders for the auditing process, which could effectively address financial reporting impropriety (Owolabi, 2010; Uwuigbe & Jimoh, 2012; Uwuigbe & Uadiale, 2011). Owolabi (2010) in a study of non-financial companies, found that thirty-five (35) percent of the sampled companies to provide some sort of financial statement. More recently, Uwuigbe and Ajibolade (2013) found the level of the financial statement, slightly lower at 24.29 percent. In this regard, companies whose operations are in Nigeria, most especially those quoted on the floor of the NSE market seem to have inadequate reports, which could affect their financial reporting quality.

The issue of unresolved conflicts of interest between the principal and agent motivates this study. For instance, there is likelihood that Nigerian listed companies adequately addressed in prior studies, are still faced with poor financial reporting in Nigeria. The lack of an effective and efficient agency instrument such as good governance and proper methods to overcome the loophole of agency problem also called for further investigations (Ahmed & Duellman, 2007). Previous studies highlighted that the weaknesses of corporate governance have led to poor financial reporting quality (Cohen *et al.,* 2004; Dechow, Sloan & Sweeny, 1996).

In addition, there is a lack of auditors' independence and non-compliance with standards and regulations of corporate governance code in the discharging of their responsibilities. This has contributed to a lack of truthfulness and accurate financial information that could enable stakeholders and other interested parties to make economic decisions (Adelaja, 2009; Bello, 2013). The study is also motivated by the corporate governance being managed by dishonest boards and the inadequacies of

transparency and accountability from management teams that are overseeing the organizations (Ewepu & Olasupo, 2014).

The Security and Exchange Commission (2011) contains a set of standards of corporate governance to address the issue of transparency, honesty, enforcement, and compliance with regulations for listed firms in Nigeria. Despite these provisions, the problem of lack of compliance and transparency still exists. The World Bank in 2004 observed that the financial reporting by the corporate organization in Nigeria is deficient. Previous researchers have explored the poor financial reporting quality in Nigeria (Ofoegbu & Okoye, 2006). This conclusion has been supported by many empirical studies including those of Adeyemi (2006); Ebirnga and Kule (2014) and Okike (2000); Wallace (1988); Uwuigbe & Ajibolade (2013). Oluwagbemiga (2014) also affirmed that the financial reporting quality of the country is poor and deficient.

Moreover, the reports of the observance and code highlighted that the accounting and auditing practices in Nigeria suffer from institutional weaknesses in regulations, compliance, and enforcement of standards and rules, which suggest the presence of corporate governance weaknesses. Subsequently, as a follow-up to the Nigeria Report of the Observance and Codes on Accounting and Auditing (ROSC, 2011), the Nigeria government requested the World Bank to carry out an investigation of how well the ROSC was implemented. The report presents the status of implementation of the country action plan and sets out current systemic issues pertaining to accounting professions that affect the governance mechanisms in firms thereby leading to poor financial reporting quality. The reports reviewed that in Nigeria, the companies' country action plans were poorly implemented and thus there was limited

improvement in financial reporting quality (ROSC, 2004, 2008 and 2011). These weaknesses gave room for manipulations and frauds (Adegbite, 2012; ROSC, 2008, 2011).

1.6 Scope of the Study

This study is not without its limitations in terms of the scope of the study. The sample consists of non-financial institutions listed on the Nigerian Stock Exchange while those excluded from the study consist of financial firms like banks and insurance companies, and they were excluded because they have an operational definition of financial reporting quality that is different from the one adopted in this study (Afrifa & Padachi, 2016). The selection of the sample in this study covers the period from 2011-2015. The criteria used to determine the sample size of this study is that the firms must have operated within the period of 2011-2015. Among those excluded are firms with missing substantial yearly figures in their annual reports and firms delisted within the period of the study. The company must not be an investment and financial broker (in order to exclude all financial institutions), and the financial information or corporate report must be accessible in the annual reports. Thus, the sample size comprised of 457 year-observations of unbalanced panel data. Year 2011 was chosen as the year of study as it was the year of implementation of the revised corporate governance code in Nigeria, i.e., the Nigerian Code of Corporate Governance 2011. The data used was secondary as extracted by hand from the annual report of the listed companies. The other boundary year of 2015 was chosen because of the availability of data in that year. For the purpose of this research, data collected were from only one country that is Nigeria. Therefore, the results of this study may not be generalizable to other countries with different institutional settings.

1.7 Significance of the Study

The conclusion by the findings from previous studies indicates that high financial reporting quality practices can regulate the challenges of corporate firms arising from agency conflicts. It is significant to check the quality of financial reporting practices in Nigeria listed companies. Prior studies have suggested some devices to check the opportunistic behaviour of the controlling shareholders (Lobo & Zhou, 2006). One of these devices is the emplacement of boards (Ahmed & Duellman, 2007). The board characteristics thus form part of the mechanisms that determine the quality of financial reports (Chen *et al.,* 2010).

The past study highlighted that financial reporting quality relies on the philosophy of supervision, control and corporate governance (Magrus, 2012; Mautz & Sharaf, 1961; Dechow, Sloan & Sweeney, 1996). This study intends to examine the efficiency of the board characteristics considering they are accountable for the integrity and adequacy of the structure of financial reporting and are answerable to the shareholders for corporate performance (McIntyre, Murphy & Mitchell, 2007). This study gives information on how to improve audit committee effectiveness. In an effort to strengthen audit committee effectiveness, the board should re-examine the attributes of audit committee members, through their directorships in other listed companies and commitments in other board committees (Lynall, Golden & Hilman, 2003; Mautz & Neumann, 1970). This will enable them to give their commitment to improving financial reporting quality.

Specifically, from a theoretical perspective, although prior research has investigated the association and examined the relationship between board characteristics (block

shareholder, director shareholder board size, board independence, committee independence, committee size, committee diligence, committee expertise) and financial reporting quality, the results are largely inconclusive (Makaoto & Pascal, 2012 and Malik, 2014). This study provides more evidence on the issue.

The study is significant for a number of considerations, and in particular, the glaring absences of in-depth research examining the relationship between boards attributes, audit quality and financial reporting quality in a developing country like Nigeria. There are scanty studies that have examined the impact of board attributes on financial reporting quality in Nigeria. To fill the gap, this research portrays the importance of the audit quality as a governance instrument in the audit process. It also highlights important findings on the audit committee characteristics such as expertise, diligence, size, independence and audit quality as a moderating variable in capturing the effective oversight of management and auditors.

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The findings could contribute to helping users who have an overwhelming influence on the way companies are run to understand the status of board characteristics in their firms and the quality of financial reporting (Malone, Fries & Jones, 1993; Mc Nichols, 2002; Madani, Addin & Rad, 2013). In addition, the findings emanating from the study will serve as a starting point for the government and regulators to set up procedures and policies that would enhance high-quality reporting in the Nigerian business environment. Security and Exchange Commission, Central Bank of Nigeria, Nigeria Stock Exchange, and other statutory bodies will also gain from the outcome of this research. The research will provide an insight for the government to understand the extent of agency problems in corporate organizations in Nigeria, and thus identify

the means by which these could be reduced (Levitt 1998, 2000; Maraghni & Nekhili, 2014; SEC, 2011).

1.7.1 Theoretical Perspective

The importance of theories such as agency and stakeholder and their relevance to the implementation of high-quality financial reporting cannot be overemphasised. The study contributes to existing literature and debate on the importance of board mechanisms in agency theory. It also shows the importance of the agency theory, which underpins the principal-agent relationship. It shows that the agency theory provides a framework through which the principal and agency relationships could be enhanced and thereby promote the financial reporting quality process (Uwuigbe & Ajibolade, 2013; Barako & Tower, 2007). The study expected to add to the body of literature on the relevance of the agency and stakeholder theories in the investigation of firms' financial reporting quality (Fodio & Oba, 2012; Masulis, Wang & Xie, 2012).

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1.7.2 Practical Perspective

In the practical aspect, board attributes, audit quality, and financial reporting quality have become part of regulatory and policymakers' concern. This concern curtails from the need to identify what policies should be adopted and what regulations should be applied to enhance financial reporting quality. Undoubtedly, the board of directors and the quality of audit would feature prominently in any regulatory action. The outcome of this study should be expected to guide the policymakers in recognizing the roles of these attributes in promoting financial reporting quality. The loss of investors' confidence in financial reporting quality could weaken the capital markets and the economy. Given that investors make up a large chunk of the participants that support

and give credence to the economy, ensuring high-quality financial reporting could also have a positive impact on the economy (Levitt, 1998, 2000). Thus, this study would assist Nigerian regulators such as Securities and Exchange Commission, Financial Reporting Council of Nigeria and other policymakers to establish an appropriate framework for effective board oversight and high-quality audit to combat financial reporting quality failure in the country.

1.8 Outline of the Thesis

The remainder of the thesis has been organized as follows. Chapter Two presents the background of corporate governance and financial reporting quality in Nigeria. Chapter Three discusses the literature review and the theoretical framework of board characteristics, audit quality and financial reporting quality building on agency theory as the underpinning theory for the study. Considering the complexity, surrounding board characteristics and financial reporting quality discussion on supporting theories follows.

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Chapter Four reviews the theoretical framework and research methodology adopted for the study. Here, the research framework and formulation of research hypotheses are presented. There is also discussion on research methods used for hypotheses testing, and the definitions of independent variables, dependent variable and control variables of financial reporting quality as used in the thesis. Sources of data explained, and the research design and determination of sample companies discussed. This chapter also contains the techniques for data analyses. The results and discussion are presented in Chapter Five. Descriptive statistics and interpretation of the results of the regression models of the statistical analyses are contained in this chapter. Finally,

Chapter Six contains the summary and conclusion of the thesis. The summary and key research findings of the thesis are discussed. Limitations of the thesis are provided and there are suggestions for further study in this area before drawing the conclusion.

CHAPTER TWO

CORPORATE GOVERNANCE AND FINANCIAL REPORTING QUALITY IN NIGERIA

2.1 Introduction

This chapter discusses corporate governance and financial reporting quality. The primary objective is to provide an overview of corporate governance reform efforts by the Security Exchange Commission of Nigeria (SECN) and financial reporting quality as applicable in Nigeria. The chapter reviews the regulation of Nigeria capital market, describes the overview of Nigeria with the regulatory background, describes the overview of company and Allied Matter Act (CAMA), and the corporate governance in Nigeria. Finally, describes the overview of financial reporting quality in Nigeria and summarizes the chapter.

2.2 Overview of Regulation in Nigeria Capital Market

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There are statutory bodies responsible for the regulation of Nigeria's corporate governance environment as an emerging market in Sub-Saharan Africa. This study notes that some of these bodies do not put sufficient emphasis on financial reporting matters. The Nigeria Stock Exchange (NSE) is one of the bodies responsible for the regulation of financial reporting quality and in the Listing Requirements in Nigeria. This is in conjuncture with developments in the UK where the financial reporting disclosure requirements incorporated into the Listing Requirements of the London Stock Exchange and the Companies Act. The US Securities and Exchange Commission has been providing the lead on financial reporting disclosure matter since 1938 (Odewale & Kamardin, 2015).

The CAMA 1990 provides the legal framework for the registration and operation of companies in Nigeria. The Corporate Affairs Commission (CAC) is an independent body established under the Act. The CAC is empowered to administer the Act under the administration of the Registrar-General. Companies recognized by the Act could be either private or public owned. It is the publicly owned companies that are listed on the NSE that have attracted much attention concerning corporate governance practice as the recommendations of Corporate Governance (CG) codes 2003 and 2011 are specifically for this category of companies (SECN, 2011).

The World Bank/International Finance Corporation (IFC) Report on the Observance of Standards and Codes (ROSC), (2008) documents that the CAC lacks the capacity effectively perform the function assigned to it under CAMA 1990. This inability of the CAC to adequately supervise registered companies in Nigeria has been acknowledged in past studies (Adegbite, 2012; Okike, 2007). Several reasons addressed for this inability. For example, Adegbite (2012) points out that according to a senior official of the CAC that the commission's capacity is constrained by myriad internal and environmental problems. Internal problems include corruption and the lack of human expertise. One of the environmental problems, which confront the CAC, is the lack of independence from the politicians (Mohamad & Muhamad Sori, 2011).

Another independent body responsible for ensuring good corporate governance practice of Nigeria's capital market is the Security Exchange Commission of Nigeria (SECN). The SECN is the principal regulator of the securities market that administers the Investment and Securities Act (ISA) 2007. The SECN was established in 1979 to

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replace the Capital Issues Commission of 1962 that was established in 1973 as a replacement of the Capital Issues Committee of 1962 (Mohammed, Chapola & Bello 2013; Adegbite, 2012; Okike, 2007). This is the outcome of reform efforts to make the capital market more attractive to investors. As a reform, the ISA 2007 passed to replace the ISA 1999. The promulgation of ISA 2007 gave wider powers to SECN on activities of Nigeria's capital market. The duties of SECN as contained in Section 13 of ISA 2007 include the regulation of the activities of the capital market to protect the interest of investors.

In 2003, the SECN published the first CG Code 2003 to improve the corporate governance practice in the country. This was revised in 2011 to address the observed weaknesses of the CG Code 2003 to align it with global best practices (SECN, 2011). The CG Code 2011 contains significant recommendations over that of 2003 such as disclosure in the annual report of the level of compliance with the CG Code by companies, provision for independent directors, and remuneration of the CEO and executive directors to contain performance-related components that disclosed in the annual reports, among others.

The NSE was established in 1960 as the Lagos Stock Exchange but started operations in 1961 after the promulgation of the Nigerian Stock Exchange Act of 1961 (Adegbite, 2012; Okike, 2007). It is responsible for the mobilization of capital for listed companies, supervision of the operations of the securities market and regulation of the activities of the second-tier capital market. Okike (2007) and ROSC (2004) noted that the NSE had about 20 companies on its trading floor as at 1970 even though there were more than 2000 companies owned by foreigners that were operating in the country as

at that time. Before 1960, foreigners controlled several of the registered companies and this continued until the early 1970s. The plausible explanations for this could be the Colonialist's drive to deny the people of their colonies economic power, the inability of the locals to raise the needed capital, and the scarce managerial ability of the few educated Nigerians before independence to manage such companies. To halt this trend and empower Nigerians economically, the Federal Government of Nigeria promulgated the Nigeria Enterprise Promotion Decrees of 1972 and 1977. It was these decrees that put restrictions on the extent that foreigners could do business in Nigeria (Aina, 2013), and opened the way for the increase in the number of listed companies on the NSE. With these decrees in place, the foreign companies were required to sell part of their shares to the Nigerian public. Even though the indigenization policy was not well accepted by the foreigners, nevertheless, the shares oversubscribed by Nigerians (Okike, 2007).

Another landmark made in 1988 with the promulgation of the Privatization and Commercialization Act No. 25 of 1988 that marked the beginning of government's effort at divesting from some of the public enterprises it had acquired under the indigenization policy of the 1970s. This again made the government divest its holdings in the government-owned companies to the Nigerian public. This further led to an increase in the number of companies listed on the NSE. As of September 30, 2008, there were 218 listed companies on the NSE, however, due to the delisting of some, the number decreased to 183 by December 31, 2015. ROSC (2008) categorized large companies in Nigeria into four domestic financial institutions, domestic controlled companies, subsidiaries of MNCs, and state-owned enterprises. The MNCs have the strongest impact on Nigeria's economy as it reported that ten of the twenty most

capitalized companies on the NSE are MNCs (SECN, 2013). However, it is sometimes difficult to identify the real owners of shares in Nigerian companies because of a lack of transparency in ownership disclosure (ROSC, 2008).

The NSE has its Listing Requirements for companies applying for listing on the exchange. Again, the Listing Requirements is weak in financial reporting quality disclosure matters. Adegbite (2012) argued that the problem confronting the NSE is that of weak structure, the consequence of which is its inability to enforce and monitor good corporate governance practice among NLCs. ROSC (2004) identified weak enforcement and administrative sanctions as part of the major challenges facing SECN. Furthermore, the only sanction that NSE can apply to any company that does not meet the Listing Requirements is delisting from the exchange. Similarly, ROSC (2011) reports that the monitoring and enforcement mechanism of the NSE is weak, thus, it is unable to conduct adequate monitoring of the disclosure by companies in the annual report to ensure compliance with regulations. According to PricewaterhouseCoopers (PWC) (2013), the legal system is inefficient, as the judicial system is susceptible to political interference and the rule of law is generally weak throughout the country. This aptly summarizes the reason for the inefficiencies in the regulations of Nigeria's capital market.

2.3 Overview of Nigeria

The Federal Republic of Nigeria is geographically located between latitude $4^{o}16$ and $13^{o}53$ north, and between longitude $2^{o}40$ and $14^{o}41$ east. It occupies a land area of 920,000 sq. km, which makes it one of the largest states within the African continent. The general climate is tropical with a temperature of about $32^{o}C$, high humidity, and

rainfall that averages about 3800mm in the south eastern part, while in the north the rainfall gets as low as 625mm. The vegetation portrays a country with rich green forest to grasslands surrounded by shrubs; this gradually fades into the dry desert areas.

Nigeria is bordered to the west by the Republic of Benin, to the north by Niger, to the northeast by Chad, to the east by Cameroon, and to the south by the Atlantic Ocean (Nwoko, 2013). Furthermore, she is located in West Africa, divided into 36 states and the Federal Capital Territory (FCT) Abuja. The states make up the second tier of government made up of 774 local government areas. She regained the democratic government in 1999 and since then has successfully conducted three general elections (Federal Government of Nigeria, 2013). Nigeria's population estimated by projection from the 2006 population census figure of 140 million people to rise up to 170 million as at 2013. This population has over 250 ethnic groups with more than 500 languages. English has been the official language though there is a local version of it called 'pidgin" spoken by most Nigerians (Federal Government of Nigeria, 2013).

Nigeria was chosen as the country of interest in this research because of its peculiarity as an underdeveloped economy when compared with the UK, USA, and Australia in terms of developed capital market structure. The thesis was conducted in Nigeria due to its peculiarity of poor financial reporting quality that has been reoccurring as reported in the annual reports from the NSE. The issue with low compliance and weak enforcement of regulations of the corporate governance that resulted in weak implementation of corporate governance code that lead to poor financial reporting quality. This could be attested from previous literature (Adelopo, 2011; Ebiringa & Kule, 2014; Okoye & Ofoegbu, 2011; Yakasai 2001).

2.3.1 Regulatory Background

The rise in industries such as banking, manufacturing, and an increase in financial reporting quality impacts has created serious sustainability issues in the financial statements. Therefore, the urgent regulation of these activities without extinguishing the prospects of these sectors is required. The Nigerian government has put in place a policy that addresses in totality, financial reporting quality, and management. The issue of whether this policy is adhered to is a subject for debate (Adeyemi & Olamide, 2011). There are indeed legislation and strategies in place to protect the existing facilities and ensure that the international standards and requirements are met, Furthermore, it ensures that the citizens have the best possible conditions for financial transactions for investors and shareholder protection rights and well-being, to enable them to invest and have good economic decisions. The policies for financial reporting quality and management range from enactments in the constitution, international treaties to regulations and resource protection laws.

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2.3.2 Companies and Allied Matters Act (CAMA)

Up until 1968, the Nigerian company law had no provision for the disclosure of mandatory information (Amao, 2014). The 1968 companies Act, which brought about mandatory disclosure of information originated from the British Companies Act of 1948. The current companies act operating in Nigeria now is the CAMA 2004 as amended. Section 331 of the Act mandates all companies to maintain records that reveal in clear terms the transactions of the company. Furthermore, also contained in the Act is the compulsory corporate governance for firms and banks in Nigeria as documented in the CAMA 2004 Part xi, section 342, and section 359(3) and (4) (Corporate Affairs Commission, 2004).

2.3.3 Corporate Governance in Nigeria

With explosive research efforts across the globe on corporate governance, little known about it in Nigeria except from some recent studies (Adegbite, 2012; Adekoya, 2011; Barde, 2009; Ehikioya, 2009; Okike, 2007; Wilson, 2007; Yakasai, 2001; Oluwagbemiga, 2014). An overview of corporate governance development in Nigeria has been presented in this section. Historically, it was the British colonists that introduced company formation that recognized the separation of ownership and control into Nigeria and the subsequent promulgation of different companies' legislation prior to Nigeria's independence in 1960 (Okike, 2007). It specified in legislation how a company should be run responsibly. During this period, the majority of the companies were foreign-owned. Before 1970, there was little concern about how corporate enterprises are run in Nigeria (Yakasai, 2001). This was because most of those companies were either foreign or government-owned.

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However, beginning from the 1980s, with extensive structural and economic reforms embarked upon by Nigeria during the implementation of the privatization and commercialization of some public enterprises, the new owners started demanding for transparency and accountability from company managers This was an effort at ensuring that these companies were governed properly run (Eteyibo, 2011; Mohammed, Chapola & Bello, 2013. Prior to the time, the public enterprises were seen as mere financial drainpipes that gulp billions of Naira in the annual budget without any tangible output (Olowokure *et al.* (2015). The public enterprise's performances were abysmally low and do not meet the expectations of the citizens (Emeh, 2012).

The most challenging issues were how to manage the firm profitability, maximise the shareholders' wealth and to increasing investors' confidence on financial reporting quality? Since the privatization of companies later failed, this prompted the stakeholders to request how companies would be managed in the future (Etieyibo, 2011). The Institute of Chartered Accountants of Nigeria in their annual conference in 1998 was able to deliberate the issue of corporate governance and the responsibilities of auditors alleged by the public for not performing their duties regarding the corporate scandals in Nigeria (Okike, 2007). The scandals involved AfriBank and the Lever Brothers Nigeria Ltd, and some commercial banks (Ahunwan, 2002; Aina, 2013). These events led to an extensive discussion of corporate governance in Nigeria by different authors (Yakasi, 2001; Akhidime, 2015). Adegbite (2012) also investigated corporate governance regulation in Nigeria respectively.

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In promoting financial reporting quality and corporate governance in Nigeria section 359 (4) CAMA 1990 incorporate the Audit Committee should comprise of equal numbers of shareholders and directors (not more than six members). According to section, one (1) of CAMA 1990 established the Corporate Affair Commission (CAC) that empowers the audit committees with the functions contained in section 7 to have the roles of monitoring and oversight functions over registered companies in Nigeria was established. The Nigeria CAMA 1990 has remained stagnant and non-progressive (Aina, 2013) and the need to respond to recent development globally. ROSC (2008) posits that a new CAMA should draft into laws and on the experience of the developed countries like the UK and Australian firm acts. It should be to enhance the shareholders' interest, to harmonize the legal framework of the developed economies, and to impose fines for non-compliance.

The recent global corporate crisis and failures coupled with the effect of good corporate governance practices by the developed and emerging countries has led to the need for Nigeria to embrace on standard corporate governance code for listed companies this became paramount and attractive to foreign and informed investors (Mmadus & Akomolafe, 2014). The financial scandals in financial and non-financial sectors in the 1990s added fervor to this development of standard corporate governance. SECN 2000 constituted of the seventeen-member committee that has Atedo Peterside as chairman with four key terms of reference to draft a standard corporate governance code for listed firms in Nigeria. The Peterside committee terms of reference as contained in SECN (2003) are as follows;

1. To examine the critical issue relating to corporate governance in Nigeria;
2. To identify weakness in the current corporate governance practices in Nigeria with respect to public firms;
3. To make recommendations on necessary challenges to current practices; and
4. To investigate practices in other jurisdictions with a view to the adoption of international best practices in corporate governance in Nigeria.

The SECN code adopted after the UK code by adopting the single-tier board operational system based on corporate governance. The UK code fell short of international benchmark for corporate governance standard practices compared to those of Malaysia, India, South Africa, and other emerging countries. Rossouw (2005) opines the inadequacy of the code captured as the only code in Africa that does not embrace the all-inclusive model of corporate governance.

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However, lack of compliance and weakness of the code were not inadequate in exposing the sub-standard financial practices, falsification of financial statements and cosmetics accounting of Afribank. The managing director of the bank who aligns with the board of director colluded with its auditor to cook and window dress the account of the company in 2006 (Okike, 1998; Salaudeen *et al*., 2015; Okoye & Ofoegbu, 2011). The cases of the Cadbury Nigeria Plc financial scandals and misappropriation of figures in 2006/2007 and the banking sector crisis brought a loss of about two trillion naira (ROSC, 2008, 2011). The incorporation of the code of corporate governance could enhance the investors' confidence, improve the shareholders' interest, encourage of foreign investors, strengthen protection of minority shareholders and enhanced investment efficiency in the economy (Stanwick, 2008).

Adekoya (2011) examined the inadequacy of the corporate governance practices in Nigeria has resulted in a lot of corporate scandals in spite of the regulatory framework and legal code of governance put in place to improve the corporate governance mechanisms. In the period between 2008 and 2010, Nigeria suffered from the banking crisis in spite of the code for banks issued by the Central Bank of Nigeria in 2006. This issue was attributed to the weak corporate governance that resulted in poor financial reporting quality (ROSC, 2011). Adegbite (2012) opines that the regulatory framework and legal system of the corporate governance in the short-run gave birth to corporate failures and corruption that has affected the corporate governance structures. Nwonyuku (2012) asserted good corporate governance in Nigeria could enhance investor rights and result in credible and reliable financial reports. The board and the independence of the audit committee could also enhance the financial reporting quality

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through monitoring, controlling and oversight functions exercise to improve the financial performance of the organization.

Previous studies in Nigeria focused on corporate governance and financial reporting quality (Nwonyuku, 2012; Onuorah & Friday, 2016) the evolution and corporate governance practices (Okike, 2000, 2007; Yakasai, 2001) the legal and regulatory framework of corporate governance (Adegbite, 2012) and the issues and prospect of the corporate governance (Adekoya, 2011). Other studies centred on the period before the corporate governance code of 2003 while some focused on the period after the period of 2003, and others also the view era of corporate governance of 2011 code of practices.

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Financial reporting quality matters need adequate attention to enable investors to make good economic decisions. Good corporate governance will facilitate high, credible and reliable financial reporting that would increase the investors' confidence (Cohen *et al*. 2004). Audit committee could also enhance the financial reporting quality through their diligent and dutiful role of monitoring and oversight functions by being independent in their reports.

The state of corporate governance in Nigeria, as well as a number of African countries, is still at an elementary stage (Wilson, 2007). Corporate governance issues in Nigeria are usually discussed side-by-side corruption, which is adduced to be a strong deterrence to development (Adegbite, 2012; Omeruo, 2012). The Nigerian government on its part has made efforts to addressing governance issues in companies by establishing corruption-fighting bodies such as the Economic and Financial Crimes

Commission (EFCC) to intervene in cases of financial fraud in both public and private sector organizations (Ehikioya, 2009; Oteh, 2013).

In addition, a number of independent bodies such as the Securities and Exchange Commission (SEC) and Corporate Affairs Commission (CAC) are saddled with the task of ensuring good governance culture among companies in Nigeria (Oso & Semiu, 2012). The CAC, for example, is in the business of administering the Companies and Allied Matters Act, which has a provision for corporate governance of companies. Similarly, in striving towards good corporate governance and fighting corruption in the organization, the SEC in the course of interviewing managers of companies who apply to raise funds on the capital market ensures that the managers are quizzed on their business goals as well as their proposed use of raise funds (Adegbite, 2012; Adegbie & Temitope, 2015).

A further measure is a penalty for non-compliance with section 345 of 2004 Company and Allied Matter Act (CAMA) which requires that delay in delivering financial statements, would attract a fine of ₦500 ($250) daily per director. In section 348 of CAMA 2004, the fine for the presentation of defective financial statements is ₦100 ($0.50) per director. As indicated these penalties are too low and outdated as defaulting companies may not likely have much difficulty paying such fines once infraction is established. According to ROSC (2011), the CAMA is outmoded regarding penalties for noncompliance and suggest that the penalty reviewed to make it compliant with present reality. It surmised that the low penalty fees required under CAMA (1990) and the weak enforcement provisions have made the CAC remain ineffective in discharging of its statutory functions.

Md Salleh (2009) highlighted the importance of good corporate governance in the economy notes that the performance of the economy of any country affected by the corporate governance quality of that nation. He emphasizes the importance of efficiency in the allocation of investment as against the size of the investment in ensuring growth. In the Nigerian environment, the failure of several corporations has raised serious doubts about the information disclosed by companies. These widespread corporate failures have necessitated the need for improvement in financial information by ensuring good corporate governance mechanisms. The cases of failure include the collapse of several banks and other companies like African petroleum, Cadbury Nigeria Plc, and host of others have all been linked to poor and weak corporate governance.

2.4 Financial Reporting Quality Disclosure Practice in Nigeria

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Financial reporting quality disclosure is important because investors are interested in how business is being managed aid in the decision-making process (Australian Stock Exchange (ASX), 2014). Mandatory disclosure of financial reporting quality by companies suggests in reducing agency conflicts between shareholder and managers results from information asymmetry and prevents executives from extracting excessive compensation (Healy & Palepu, 1995; Onwuchekwa, Erah & Izedonmi, 2012).

It is appropriate to understand the financial reporting quality disclosure practice in Nigeria under the market-based corporate governance system practice in the country. The legal and regulatory framework on financial reporting quality in Nigeria is different compared to the UK. It remains if the factors that influence financial reporting

quality in the UK could also have equal effect in Nigeria considering country- specific factors. Nigeria is a part of the global economic community and as such is not immune to the happenings in other countries of the world in this era of globalization.

In Nigeria's quest to make its companies conform to corporate governance best practice that is in line with international standards, the CG code 2003 was published by the SECN with a revised version in 2011. The CG Codes require the disclosure of mandatory financial statement in the annual reports. The item for disclosure includes the emolument of directors, chairman, and highest-paid director. It further recommends the emoluments of the CEO and executive directors should include performance-related elements like bonuses, stock options, and long-term related components like the pension. There is however poor disclosure in the annual report on the individual basis.

In Nigeria, the CAMA 1990 remains the only legislative guide on financial reporting quality. However, the Act remains inactive and lacking in monitoring roles on companies' requirements to make disclosure of details of financial statement in the annual reports. Furthermore, the CG Codes 2011 Report indicated that company financial statement disclosed in the company's annual report was still poor. However, there was still poor disclosure on the financial statement of each individual director and key management personnel. The lack of enforcement and the adequate supervisory issue remains a challenge to NSE.

The report by the World Bank/IFC on corporate governance assessment on Nigeria, (ROSC, 2008; Ofoegbu & Okoye, 2006) documented that the weakness of corporate

governance highlighted that the accounting and auditing practices in Nigeria suffer from institutional weakness in regulations. The reports averred that the Nigeria action plan was poorly implemented and lacked transparency (Adegbite, 2012; ROSC, 2004, 2008, 2011). This provides support for the findings of ROSC (2011) Ogbonna and Appah (2011) that enforcement and compliance mechanism is weak in Nigeria.

This practice, however, contrasts those of developed economies that have been accepted as constituting good practice. For example, the US Securities and Exchange Commission (SEC) has been at the forefront of enacting rules that require companies listed in the US to make mandatory disclosure of financial statement in their proxy statements since 1938. The case of Nigeria is different from that of the US as the Listing Requirement of the NSE is weak, lack enforcement and compliance in financial reporting matters (Okike, 2007; Oyejide & Soyibo, 2001; Ogbonna & Ebimobowei, 2012).

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2.5 Chapter Summary

In this chapter, the background of Nigeria's corporate environment was discussed with emphasis on the regulators of the country's capital market, thereby highlighting the inherent weakness associated with the inability to perform their duties. The corporate governance landscape presented argued for a mandatory disclosure regime that backed up by relevant legislation. Furthermore, financial reporting disclosure was shown to be poor because of lack of transparency, weak corporate governance code, and lack of enforcement and monitoring devices of for regulations of a mandatory disclosure requirement for the public listed companies in Nigeria. The review of relevant literature as pertains to this study has been presented in the next chapter. This includes

different theories on board characteristics and financial reporting quality. The international perspective on board characteristics and past empirical research on the relationship between financial reporting quality and this study's explanatory variables presented.

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CHAPTER THREE
LITERATURE REVIEW

3.1 Introduction

This chapter contains review of literatures on topics that are related to this study. The structure begins with the concepts of financial reporting quality discussion followed by measurements of financial reporting quality, overview of corporate governance, Big 4 firms and auditor tenure, underpinning theories and the literature gap and finally, presents the chapter summary.

3.1.1 Concepts of Financial Reporting Quality

Much attention is given to the quality of the financial reports and indeed the phrase "financial reporting quality'' has been widely used. The concept of the financial statement is elusive and has been interrupted in a variety of ways (Ball & Shivakumar, 2006). There has been no consensus on the definition of or the framework for financial reporting quality among researchers and accounting professionals (Jonas & Blanchet, 2000). As stated by McDaniel, Martins, and Maines (2002), the SEC auditing profession and national exchange (in the US) have not specified an explicit definition of or framework for financial reporting quality. As a result, there are various interpretations of or proxies for financial reporting quality.

Prior studies use either disclosure quality or earning quality (Wright, 1996; Atanasovski, Jovanovski & Jovevski, 2015; Lara Osman & Neophyto, 2009; Bushman, Piotroski & Smith, 2004; Bushman, Piotroski & Smith, 2005). Very few studies used multiple proxies for financial reporting quality (Barton & Waymire, 2004; Han, 2004; Rajgopal & Venkatachalam, 2008). This has motivated an understanding

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of the concept of financial reporting quality through multiple proxies. Aggarwal *et al*. (2011) formally test the idea of financial reporting quality and show that international organization investors lead to improved governance practice across the country through high financial reporting quality. Armstrong, Core, and Guay (2012), and Lamboglia and D'Onza (2015) agreed with other researchers that institutional investors may affect their investee's choice of board members through financial reporting quality.

Nevertheless, previous studies used different proxies in the measurement of financial reporting quality. Some researchers use either financial reporting quality (Wright, 1996) or measurement quality (Bushman *et al*., 2004). Very few studies use multiple proxies in the measurement of financial reporting quality (Barton & Waymire, 2004; Han, 2004; Rajgopal & Veenkatachalan, 2008). This has provided an understanding of the concept of financial reporting quality through multiple proxies. Other studies measure financial reporting quality in relation to certain characteristics or attributes. However, this study incorporates the use of financial reporting quality index as a basis for measurement of financial reporting quality because it is utilized in investment decision-making in the companies (Coy, 1993).

According to Deloitte (2011), financial reporting quality show the improvement and performance of the entity in question so that the investors can make strong decision based on accurate information regarding potential risks and returns. Another major objective of financial reporting quality is to explain that this decision includes buying, selling or holding their investment and an assessment that efficiently and effectively managing and governing boards have discharged their responsibility to users of the

entity resources (Popova *et al*., 2013). The financial reporting quality directed to providers of capital who cannot otherwise demand the information they need to make their decisions and assessments such as investors in an entity traded publicly traded equity or debt and thus, rely on financial reporting quality for much of the information they need.

The financial reporting quality also identifies the relevance and faithful representation of fundamental qualitative characteristics. Others are comparability, verifiability, timeliness, and understand ability (Beest *et al*., 2009; FASB, 2011; Kythreotis, 2014). Section 334 of the CAMA (2004) provides the content of financial reporting information for public liability companies. Financial reporting quality also includes the aggregate of individual financial statements such as total assets, total liability and net income. The financial reporting quality should also distinguish the entities operating, financing and investing activities, which raises the question of how to use different measurement bases (Beest *et al.,* 2009).

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Armstrong, Guay and Weber (2010) argue that financial reporting quality concept should be timely and relevant, credible information that would enhance the monitoring performance of the board of directors. Kim and Yang (2014) and Wang *et al.* (2008) portray the enhancement of transparency in the concept of financial reporting quality as the duty of the board of directors in monitoring the company and directing the financial reporting quality process. Brickley and Zimmerman (2010) posit that, regarding the class of agency problem that would separate ownership and control of the managers. Epstein and Jermakowicz (2010) provide a conceptual framework that

has the conceptual basis for selecting the information feature in such a quality index in enhancing financial reporting quality.

Financial reporting quality is important in order to improve the public understanding offense and their interaction with society. Beeset *et al*. (2009), FASB (2011) and Norwani *et al.* (2011) posit that high financial reporting quality information positively influence capital providers and other stakeholders in making investment credit and similar resource allocation decision enhancing overall market efficiency. Credible reporting quality reduces information asymmetry between company insider/the management and the outsider/investors (Laasonen, 2012).

In addition, financial reporting quality to certain characteristic suggested that the quality of a company financial reporting ultimately depends on financial information qualitative characteristics; relevance, reliability, verifiability, comprehensiveness, timeliness, and comparability (Jonas & Blanchet, 2000; Braam & Beest, 2013). The financial reporting is referred to as being of high quality if it possesses three attributes- transparency, full financial statement, and comparability. Transparency is referred to as the revealing of information about events, transactions, judgment and estimates, which allows users to see the results and implications of the decision, judgment, and estimates of preparers. The full financial statement was related to the provision of all information necessary for decision-making while comparability means that similar transaction is accounted for in the same manner both cross-sectional arising among companies as well as overtime (Barton & Waymire, 2004; Kamal Hassan, (2012).

A financial reporting index is a research instrument used to measure the level of the financial statement of information in annual reports (Wei *et al*., 2008). It also helps in detailed information on historical figures and the future prospects of the company's business activities (Chang, 2018; Hope 2003). It also checkmates in the behaviour of security prices and the comprehensiveness and completeness of information, the timeliness and relevance of financial reports (Bushee, 2004; Buzby, 1974; Coy *et al*., 1993; Firth, 1979) and ensures the information very transparent.

Furthermore, in determining the quality of financial statement prior studies have used their own self-developed financial reporting index (Devalle, & Rizzato, 2017; Li, Pike, & Haniffa 2008; Buzby, 1974; Cooke, 1993; Naser & Nuseibeh, 2003). The weighted index procedure involves an evaluation of the information item disclosed in a report (such as an annual report) based on a pre-defined list of the possible index items. The financial reporting index is either weighted or unweighted. The weighted index takes into account the importance of information items whereas an unweighted index assumes all items are of equal importance (Wei *et al*., 2008; SarDesai, 1997; Firth, 1979; Hooks, 2000). Some studies, which employed the weighted index are: Buzby (1975), Cerf (1961), Malone *et al.* (1993), Singhvi (1968), and Stanga (1976), while those studies that used the unweighted index includes Ahmed and Nicholls (1994), Hossein *et al.* (1994), Wallace (1988), and Wallace & Naser (1995). In addition, some studies employed both the weighted and unweighted index: these are Choi (1973, 1974); Chow and Wong-Boren (1987), more studies used the unweighted index than the weighted index therefore, this study would use the unweighted index.

Li (2016) investigated the relationship between the quality of financial statement and excess perquisites. The testing samples are adapted from the Shen Zhen Stock Exchange Market. The result found that top executives related to the higher quality of the financial statement of the firms to perquisites consumption. Moreover, it testified that the relationship is statistically significant in a lower environment index province in China. Finally, financial reporting index can be used as the instrument variable to solve for the possible endogeneity problem. The results further support that the financial reporting index will reduce the executives' extra perquisites and could assist in the survivability of the organization by regulating the activities of the board and evaluating their performances of the firm.

Chalaki, Didar and Riahinezad (2012) investigated the effect of corporate governance attributes on financial reporting quality in 136 firms listed in Tehran Stock Exchange in the period of 2003-2011. Chalaki *et al*. (2012) employed the study by Mc Nicholas (2002), Collins, and Kothari (2001) as the measurement for financial reporting quality. Institutional ownership, ownership concentration, board independence, and board size were variables employed. Descriptive correlation statistics using multiple regressions in SPSS and Eviews software were utilised. The findings showed that there was no relationship between corporate governance attributes including board size, board independence, ownership concentration, institutional ownership, and financial reporting quality. In addition, there was no evidence found to support the significant relationship between control variables (audit size, firm size, and firm age) and financial reporting quality.

Peyravan (2016) investigated whether financial reporting quality of firms is associated with investors' simultaneous participation in the firms' syndicated loan and equity (dual-holdings). The sample size using hand-collected data 2006-2014 consists of 98,842 firms' observations on institutional investors' loan and equity holding. Discretionary accrual quality was employed in analysing the data. The finding shows that investors are more likely to be dual holders in the firm with low financial reporting quality.

3.1.2 Measurements of Financial Reporting Quality

The previous literature documents different index utilized in measuring financial reporting quality of firms. It measured with some attributes of characteristics of qualitative (Beest & Braam, 2009) and another proxy to measure the quality of the financial statement of companies (Buzby, 1975; Cooke, 1993; Wallace, 1995).

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Boshnak (2017) investigated the extent and level of mandatory practice of financial reporting quality of companies in the Gulf Co-operation Council in UAE for the period of 2010-2013. The study covered companies with 325 mandatory financial reporting indexes. The level of mandatory items disclosed by the sample GCC country listed firms compared to what was required in the 24 applicable IFRSs/IASs (325 mandatory items) was found to vary across the GCC countries. The average level of mandatory reports requirements with the 24 IFRSs investigated across firms and years was 0.73, with a range from 61% to 87%. The level of mandatory statement increased from 0.72 in 2010 to 0.74 in 2013, indicating that the level of mandatory statement improved in the region over the study period. The age and status of the company (industry type)

appeared to be significant factors for mandatory reports size assets and sales and company profitability found to have no effect on mandatory financial reporting quality.

Li (2016) investigated the relationship between financial reporting quality information and excess prerequisite. The sample consisted of listed companies in Shen Zhen Stock Exchange in China for the period of 2009-2012. The quality index was used in analysing the data; the sample of 1,516 firm-year observations with 379 listed companies was used. The result showed perquisite consumption by director shareholder executives with higher financial reporting quality information of the firms. The result testified that the relationship is statistically significant in a lower environment index province in China. The internal control index was used as the instrument variable to solve the endogeneity problem. The financial reporting quality information disclosed will constrain the director-shareholder excesses to improve financial reporting quality.

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Hasan and Hosain (2015) investigated the extent and level of mandatory practice of financial reporting quality of companies in Bangladesh for the period of 2010-2013. The study covered companies listed on the Dhaka Stock Exchange (DSE) with a sample size of 246 companies. The financial reporting quality index employed in the analysis were both weighted and unweighted financial reporting index as noted by Cooke (1989). On the other hand, the weighted financial reporting index as applied by Adelopo (2011) in his studies concluded that financial statement compliance was poor among listed companies. They disclosed an average of 50.62% of the item selected during the study period 2010-2013. The minimum score found in the study was 20.81% and the maximum was 77.08%. The age and status of the company (industry

type) are significant factors for mandatory reports size of assets and sales and company profitability found to have no effect on mandatory financial reporting quality.

DeFond and Zhang (2014) attest through archival auditing research that audit quality enhances financial reporting quality by increasing the reliability and credibility of the financial statements. The audit quality depends on the firm's innate characteristics and financial reporting systems. Audit quality relied on the clients demand such as incentive agency cost and regulation, and the competencies of the audit committee and the efficacy of the internal control audit function. The auditor supply is another strand that could improve the audit quality through the reputation, litigation and the regulation and the competencies of the audit process and the function of the expertise. The intervention of audit market regulations such as Sarbanes Oxley Act (SOX) can be a check and balance to the equilibrium level of audit quality (DeFond & Lennox, 2011). Some of the major SOX provisions include financial expertise, audit committee, internal control audits, and restrictions on former auditor employees, with higher audit quality providing greater assurance of high financial reporting quality.

Ibrahim (2015) examines the adoption of International Financial Reporting Standard (IFRS) in Nigerian companies listed in the Nigerian Stock Exchange (NSE) for the years 2012-2014. The financial reporting index was used in the analysis and sample size of 97 listed companies. The study used unweighted financial reporting index to extract information about the quantity of segment item disclosed by sample companies' financial reporting quality. Cooke and Wallace (1989) employed the same approach. The dichotomous procedure was employed in the analysis if an item is disclosed one (1), or zero (0). The study documented that the financial reporting

quality was positively related to some aspects of firm characteristics such as industry type, auditor type, firm size, and these variables provide a significant impact on compliance with IFRS operating segments of financial reporting quality.

Siyanbola, Musa and Wula (2014) examine the extent of financial reporting quality compliance with IAS 16 by companies listed on the Nigerians Stock Exchange (NSE) for the year 2002-2011. The sample size consisted of five (5) listed companies as contained in the NSE fact book 2012/2013. The study employed qualitative grading using a compliance index and ANOVA statistics utilized in the data analysis. The eleven (11) requirements were developed from the statement of accounting standards while 21 requirements were developed from the international accounting standards based on a critical review of relevant literature. The total compliance index constructed by comparing requirements of the standard against the information disclosed in the financial reporting quality of listed firms similar to Barde, (2009) and Bashir (2012). The result showed that IAS 16 when compared to our local Statement of Accounting Standard (SAS) requires a higher number of financial statement requirements. This could be responsible for the failure of our companies to comply with IAS 16 financial statement requirements of financial reporting quality and this contributed to poor financial reporting quality in Nigeria.

Ali (2014) proposed the relationship between corporate governance and financial reporting quality in a context of principal-agent conflicts and poor investor protection. The sample consists of all French listed firms included in the French Stock Market Index (SBF120 index) in 2004. The sample size comprised of 81 companies and 20 observations analysed. The Herfindahl index was employed in the analysis and the

result showed that there was a positive relationship between corporate governance and financial reporting quality and no relationship between financial reporting quality and cross listing.

Gorgan and Gorgan (2014) examine the financial reporting quality level of companies listed on the Bucharest Stock Exchange (BSE). The sample consists of companies listed on BSE (category I and II) that prepared their consolidated (the unweighted index employed in the analysis). The study utilized the IFRS financial statement index and checklist (Deloitte) and the text of standards consistent with Buzby (1975) and Cooke (1989, 1993). The result showed that there was a high level of non-compliance with IFRS 48 of the financial reporting quality information.

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Agyei-Mensah (2013) investigated the financial reporting quality before and after adopting IFRS in Ghana. The sample size consists of all the 35 listed companies in Ghana Stock Exchange. The empirical analysis concentrated on the pre-official adoption period (2006) and the post-adoption period (2008). The quality of financial information reports (QFIR) index measures the financial reporting quality information using the qualitative characteristics of financial reporting information as advocated by IASB, IFRS theoretical framework. This showed the level of compliance after the adoption of IFRS in Ghana, how this affects the financial reporting process.

About twenty (20) key criteria first used by Beest, Braam and Boelen (2009) and the qualitative characteristics of the IASB framework include relevance, faithful representation, comparability, understand ability and timeliness. The study used sample of 231 annual reports from companies in UK, US and Dutch stock exchange

from the period of 2005 to 2007. The findings reported that the measurement tool used in this study was a valid and reliable approach to assess the quality of financial reports. The measurement tool contributes to enhancing the quality assessment of financial reporting information, fulfilling a request from both the FASB and the IASB (2008) to make the qualitative characteristics operationally measurable. With the improvement of financial reporting quality after adopting IFRS, users assured of useful information on financial decision-making.

Nyor (2013) examined the quality of annual reports and accounts of Nigerian firms from the perspective of users of such accounting information. The study administered one hundred (100) questionnaires to seven (7) respondents' user group of relevance; understand ability, consistency, objectivity, comparability, reliability and completeness and using a five-point Likert scale and chi-square for the test of the hypotheses. The result indicated the quality of the annual report and accounts of Nigerian firms is only moderate.

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Popova *et al.* (2013) investigated the association between mandatory financial reporting quality companies' values using a sample of UK companies included in the FTSE 350 index for the period 2006-2010. The study adopted the unweighted financial reporting index, which, used in prior studies like (Cooke, 1987; Akhtaruddin, 2005; Bruslerie & Gabteni, 2010; Wallace & Naaser, 1995). The sample size consisted of 20 companies selected randomly in order to avoid bias and 100 observations were gathered. The findings showed that the average mandatory financial reporting index for the 5-year period was 91.51% (with minimum 69.31% and maximum 100%) which is consistent with financial reporting index by Wallace and Naaser (1995), and Owusu-

Anash (1998) in conformity with the financial reporting quality. This demonstrated the compliance ability of firm in the UK with mandatory financial reporting index.

Hassan (2012) examines the extent of corporate governance and financial reporting quality by United Arab Emirates (UAE) listed corporation. The sample size consists of 91 UAE listed corporation representing the various sectors (banking, insurance, industrial and services) in the country. The corporate governance index employed in the analysis and the financial reporting index based on the Organization for Economic Corporation and Development (OECD) 2004, UAE code of corporate governance, published in their annual report and prior research that addressed corporate governance index (Haniffa & Cooke 2002; Chen & Zhen, 2007). The study employed a weighted financial reporting index in the analysis. The result showed the extent of corporate governance index and financial reporting quality found to be similar across various sectors in the UAE. The highest financial reporting indices are is those dealing with management structure and transparency, which found to be significantly different across the sectors in the UAE.

Galani, Alexandrids, and Stavropoulous (2011) investigated the hypothesized impact of several firm characteristics on the extent of the mandatory index. They constructed a mandatory index of 100 items to measure the degree of compliance with the financial reporting quality. The study was conducted on a sample of companies on the Greek Stock Exchange for the year ended 2007. The finding showed that the listed companies in Greek disclosed the mandatory requirement of 86% of the mandatory index.

Hooks (2000) examines the extent of financial reporting quality in the annual report of Electricity retail and distribution companies from the accountability perspective. The study developed an empirically derived mandatory index design specifically for this purpose to limit the researcher's personal perspective. A questionnaire incorporating the potential item were sent to 15 purposively selected panel members who were asked to weight each item perceived importance in the annual report. The scale was carefully defined so individual respondents could make compatible distinctions between concepts such as "very important" and of "intermediate importance". However, the weightings for individual items and the scores for comprehensiveness of disclosure are necessarily subjective because they represent the attitudes, beliefs, knowledge and interests of each panel member and the researcher.

Table 3.1 presents a summary of relevant research in literature on financial reporting quality. These studies have individually considered investigations relating to audit committee, financial information, board independence, board size, board ownership, block holder, audit quality and other relevant variables. However, there are inconsistencies in the findings from these previous studies, in addition to lack of in-depth study, lack of enforcement regulations and auditor transparency, unresolved agency conflict and thus the issue of poor financial reporting quality. Therefore, this study aims to bridge the gap by investigating the relationship between board characteristics with financial reporting quality.

Table 3.1 Summary of Previous Research on Financial Reporting Quality Disclosures

Author and Year	Country	Dependent Variable	Hypothesis variable	Sample	Main findings
Li (2016)	China	Financial reporting quality disclosure	Top executive compensation state-owned enterprise	370 listed companies	Financial information reduces executive excess perks
Atanassovski, Jovanovski, and Jovevski (2015)	Macedonia	Disclosure quality	Size, listing status, leverage, ownership structure, profitability, and audit type	116 listed companies in Macedonia Stock Exchange	Disclosure with ownership concentration (positive)
Leong et al. (2015)	Singapore	Financial reporting quality	Independent audit committee, audit committee size, audit committee meeting.	423 non-financial companies from the annual report of Singapore Stock Exchange	Audit committee and audit committee independence (negative)
Hassan and Hosain (2015)	Bangladesh	Disclosure index	Firm size, age, profitability, and industry type	246 companies listed on Dhaka Stock Exchange	Disclosure quality compliance on the mandatory type (negative)
Kabir Ibrahim (2015)	Nigeria	Disclosure segment	Size, leverage, industry type, auditor type, and listing status.	97 companies from the Nigeria Stock Exchange	Disclosure segment with size, industry type, auditor type, and listing status (positive).
Zango, Kamardin, and Ishak (2015)	Nigeria	Mandatory compliance	Banks, IFRS	14banks in Nigeria Stock Exchange R15 listed	Mandatory compliance with Nigeria banks (moderate).
Kythreotis (2014)	UK	Financial reporting quality	Relevance, reliability, and consistency.	companies European Securities Exchange Commission	Relevance (positive) and reliability (unchanged)

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Devalle and Rizzate (2014)	Italy	Mandatory disclosure	Intangible asset, size, and performance	All Italian companies belonging to the ITSE	M\mandatory disclosure with size and intangible assets (positive)
Gorgan and Gorgan (2014)	Romania	Financial reporting quality disclosure.	Size, profitability, auditor reputation, leverage, and industry type	Typr1 and type 11 listed companies at BSE	Disclosure quality with IFRS (positive).
Ali (2014)	US	Corporate governance	Ownership concentration, shareholder voting rights, and family controls	81 companies in the US	Disclosure across the US cross-listing (positive)
Chakroum, Hussaney, and Hussainey (2014)	Tunisia	Financial reporting quality disclosure	Board independence, managerial ownership	54 firm-year observation	Board independence (negative) regulatory and shareholder (positive)
Samailia (2014)	Nigeria	Financial reporting quality	Separation of power, CEO, board meeting, ownership structure, and audit committee.	7 listed petroleum marketing companies in Nigeria	Separation of power, CEO, (positive) audit committee and audit committee meeting (negative).
Popova et al. (2013)	UK	Mandatory disclosure	Firm value, earnings, age, size, and leverage	Selected at random 20 companies in the UK	Company value, leverage, and age (positive).
Nyor (2013)	Nigeria	Financial reporting quality	Understandability, relevance, consistency, comparability, reliability, objectivity, completeness.	7 users' group of random selection from a higher national diploma degree	Understandability, relevance, comparability, reliability, objectivity, and completeness (moderate).
Dou, Hope, Thomas & Zou (2013)	Toronto	Financial reporting quality	Firm size, leverage, analyst and block holder	S &P 1500 firms Toronto Stock Exchange	Block holder (positive).
Alabadin (2013)	Nigeria	Financial reporting quality	Poor presentation, manipulation of figures and fraud		NAICOM (positive).

Kamal Hassan (2012)	Egypt	Corporate governance	Financial reporting quality, governance regulations	91 UAE listed companies	Disclosure quality with management (positive).
Chalaki, Didar, and Riahieezhad (2012)	Iran	Financial reporting quality	Board size, board independence, institutional ownership concentration, firm size, and firm age	136 firms selected from TSE tested firms	Board size, board independence, ownership concentration, institutional ownership (negative)
Dangana Umaru (2011)	Nigeria	Financial reporting quality	Audit compensation, audit firm independent, Big 4 audit firm, and joint audit	8 building materials firm from Nigeria Stock Exchange factbook	Audit firm (positive)
Klai and Omiri (2011)	Tunisia	Financial reporting quality	Board director, corporate ownership, block holders and family ownership	22 not- listed companies from TSE	Block holders, family ownership (negative)
World Bank (2011)	Nigeria	Financial reporting quality	ROSC, annual report observance of codes		ROSC (negative)

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3.2 Overview of Corporate Governance

Corporate governance has focused on identifying the behavioural patterns; finally, this eventually becomes the guidelines influencing decisions regarding the internal governance of companies (Outa, 2011). These set of rules aid in shaping the relations among the board of directors, shareholders and managers alongside resolving the agency conflicts (Ashbaugh-Skaife *et al*., 2006, 2008; Gill, 2008). Mohamad and Muhamad Sori (2011) asserts that good corporate governance helps in ensuring transparent financial reporting, management accountability, and socially responsible corporation, which in turn, facilitates efficient use of scarce resources to increase shareholder value (Ebiringa & Kule, 2014). Jo and Harjoto (2011) define corporate governance as a system of checks and balances that trade-offs benefits and costs of firm decisions such as financial reporting quality engagement and is a system of controls, regulations, and incentives to minimize conflict of interest and prevent fraud. Similarly, the Cadbury Committee (1992) defined corporate governance as a system through which the operations of a company are directed, controlled by the appointed directors. The shareholders have a role in appointing the director and auditors, who should provide the shareholder with an external and objectives check on the director financial statement forming the basis of the reporting system.

Sarbanes Oxley Act (2002) defines corporate governance as a mechanism, processes, and a relation by which corporation is controlled and directed. Malaysia Institute of Corporate Governance (2011) defines corporate governance as a process and structure used to direct the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-

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term shareholder value whilst taking into account the interest of other shareholders. This current study defines corporate governance as the way directors are seen to be transparent and are held accountable particularly, through financial reporting process of the organization (Nwonyuku, 2012).

3.2.1 The Corporate Governance Mechanism

Following the events of Enron, Cadbury and other corporate failures, corporate governance in Nigeria has developed towards issues of corporate ethics and financial reporting quality (Eng & Mak, 2003). In view of these new reforms, companies have developed mechanisms of corporate governance that seek to address shareholders concern, for example, board characteristics, audit committees, stakeholders' complaints and dialogue channels among others (Levi, Segal & Segal, 2014; Gillan 2006; Shil, 2008; Panfilii & Popa, 2011; Adewale, 2013).

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The external corporate governance mechanism such as utilised by Big 4 audit firms is the mechanism developed to mitigate the impact of the agency problems and thus, reducing the financing cost of the firms to enhance financial reporting quality and to be more interested in the firms' resources and the growth of the firms (McNicholas, 2002; Vitols, 1995). For instance, the employment of Big 4 auditors could assist in reducing the fraudulent activities in the financial statement. The internal corporate governance comprises block shareholder, director shareholder, and board size and board independence, among others. The inclusion of these variables and audit committee are paramount to ensure more balanced governance's structure and guarantee credible financial reporting quality (Cohen *et al.,* 2004, Shuto & Takada, 2010; Liang, Xu & Jirapon, 2013) and to maximize shareholder wealth through

achieving the highest possible value for the firm (Brown & Caylor, 2006; Byard *et al*, 2006). This implies that the role of external auditor and audit committee are very vital in enhancing financial reporting process.

The external auditors are those individual experts that act as an external governing mechanism to the internal controls of a company by reviewing and evaluating its internal activities, and controls primarily to detect any material misstatement and promoting high financial reporting quality in a company (Ali *et al*., 2004; IAIS, 2009; Ojo; 2009; Beattie *et al*., 2004). Furthermore, the audit committee is a key element of corporate governance that makes management accountable to owners (principal) for its stewardship of a firm (Patel *et al.,* 2002). In this respect, attention has been drawn to the important role of audit committees vis-à-vis the external auditor's responsibilities (Ajeela & Hamdan, 2011).

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Audit committees do not only serve as internal monitoring devices which augment good corporate governance practices, but they are also regarded as instruments that ensure that a proper relationship subsists between the auditor and the client's management (Al-Shaer *et al*., 2017; Li *et al.,* 2012). More importantly, the audit committee and the auditors need to maintain an ongoing dialogue independent of management and the rest of the board. In a way, the external audit serves as a signalling device to principals of a firm that financial information provided by the management could be reliable. It is, therefore a major concern, that mainstream accounting research reveals that enhancing the independence of audit committees and auditors would increase the credibility and financial reporting quality for the benefit of all key stakeholders (Cohen *et al*., 2004). This indicates that the external auditor and the audit

committee responsibility in monitoring, evaluating and detecting material misstatement could influence the quality of financial reporting process.

3.2.2 Block Shareholder Ownership

Block holders are shareholder with an exceptionally large amount or value of stock in the firms. They are real owners of the company and they have the power to appoint the director that should oversee the organization, they have the voting power. In addition, block holder is measured as the total shareholding by shareholders that own minimum shares of 5% in the company (Dwivedi & Jain, 2005; Farrer & Ramsay, 1998; Masulis *et al*., 2012). Past studies document that the role of the block holders' ownership in influencing firm management is inconsistent in the extant literature (Zureigat, 2011; Pucheta-Martínez & García-Meca, 2014). Some schools of thought argued from the expropriation point of view. While others argued that, the presence of block holders protects interest of the minority shareholders (Chhaochharia, Kumar & Niessen-Ruenzi, 2012; Derrien *et al*., 2013; Firth *et al*., 2007; Khan, Dharwadkar & Brandes, 2005; La Porta, Lopez de Silanes, Shleifer & Vishny, 1998; La Porta *et al*., 1999; Lemmon & Lins, 2003). For example, La Porta *et al*. (1999) argue that companies in countries with the weak market for corporate control and weak investors' protection rights will experience increased agency problems between controlling shareholders and the minority shareholders (Ozkan, 2007).

Similarly, La Porta *et al*. (1999) recognized block holders' ownership as a source of agency problem in companies because of the propensity in them to extract private benefits of control to the detriment of the minority shareholders. There are studies that have examined how it influences financial reporting quality but does not show how it

influences board characteristics variables (Boubakri, Cosset & Guedhami, 2005; Cronqvist & Fahlenbrach, 2008; Kouki & Attia, 2016; Latif, Kamardin, Mohd and Che Adam, 2013; Hassan, 2012). This necessitates the current study on the subject of board characteristics and financial reporting quality. In addition, another strand of literature that discusses the relationship between block holders' ownership and financial reporting quality (Dou, Hope, Thomas & Zou, 2013; Cheng & Firth, 2005; Firth *et al*., 2007; Khan *et al*., 2013).

Previous studies that examine the relationship between block holder ownership and financial reporting quality document that the proportion of shares held by block shareholders is associated with lower financial reporting quality (Cheng & Firth, 2005; Khan *et al*., 2005; Ozkan, 2007). Other schools of thought argue that block shareholders will use their influence to constrain the CEO from extracting the importance of financial reporting quality (Firth *et al*., 2007). Their result documents a statistically significant negative relationship between large outside shareholders and financial reporting quality (Latif *et al*., 2013). This shows the inconsistencies in the prior studies.

Block shareholder have a fixed effect in investing, financing and operating activities and compensation policies of firms and the financial reporting quality of manager can be sharpened by the block shareholder (Edmans, 2009 & 2014; Cronqvist & Fahlenbreach, 2008; Kim, 2005). Block shareholder being a homogenous group has to influence financial reporting quality and have a constant direction of influence to have heterogeneous preference beliefs and skills (Kouki & Attia, 2016). Block shareholder is to vote with their feet (McCahery, Sautrier & Starks, 2015). The

authority and power of the block holders enable them to appoint the director on the board of affairs of the entity (Derrien *et al*, 2013). Furthermore, prior studies show the result of the relationship between block holder and financial reporting quality and weakness of the board structure have mixed findings. For, example, Dou *et al*. (2013) indicate a positive relationship between block holder and financial reporting quality while Nodehi, Largani and Nokashti (2015) found a positive relationship.

Dou *et al*. (2013) investigated block holder heterogeneity and financial reporting quality with the size of the firm of 1500 S&P (Stock market index in the US) using the hand-collected sample and covers annual reports 2002-2009 and regression analysis was used based on Dechow and Dichev (2002). The results indicate that the block holder significantly positively affect financial reporting quality. It also shows that a large shareholder influencing the selection of firms and the action of block holders enhances financial reporting quality. Cheng and Firth (2005) examine how to block holders' structure and governance mechanism affects top executives pay in Hong Kong during the period 1994 to 1999 using a sample of 2,016 firm-year observations. Using the highest-paid director as a proxy for CEO duality, they find a significant positive relationship between financial reporting quality and institutional share ownership. This finding supports their argument that institutional investors could constrain the CEO from extracting higher compensation for their monitoring and oversight activities.

Klai and Omri (2011) examine corporate governance and financial reporting quality in Tunis stock exchange with the sample size of 22 non-financial firms. Descriptive statistics employed to analyse the data between the independent and dependent

variables. The finding shows that the governance mechanisms affect the financial information quality of the Tunisian companies. In addition, the power of the foreigners, the families and the block holders reduces the reporting quality, while the state control and the financial institutions is associated with good quality of financial reporting.

3.2.3 Director Shareholder Ownership

The primary duty of the directors is the monitoring of managerial actions to protect the interest of the shareholders (Smit, 2015; Chen *et al,* 2012; Lemmon & Lins, 2003). It is however been noted that directors may not be fully committed to serving the shareholder interest without any personal stake. It is on this premise that the agency theory proposes that directors should have equity holdings in companies where they sit as directors make them align their interest with those of the shareholder. Share ownership by directors as a way of mitigating the principal-agent conflicts as this will help align the interest of the directors with those of the shareholders, thereby making them to take delight in doing adequate monitoring of managerial activities (Armstrong *et al*., 2014; Cheng & Firth, 2005; Firoozi *et al*., 2016; Jensen & Meckling, 1976; Fama & Jensen, 1993).

Bhagat and Bolton (2009) and Bukair and Abdul Rahman (2015) recognized the possibility of directors with appropriate stock ownership to be motivated to do effective monitoring of the executives. In their study of 847 companies covering the period between 1998 and 2002, they examined the relationship between management turnover and director stock ownership. The finding revealed a positive relationship between management turnover and director stock ownership when a company reports

poor financial reporting quality. In another study, Ozkan (2007) report a negative relationship between directors' ownership and financial reporting quality in the UK, thereby indicating that managerial ownership aligns managers' interest with those of the shareholders. Furthermore, Fama and Jensen (1983) note that the directors shareholding is the highest level of control for organizational decision making and they possess the powers to engage, fire and provide incentives for top-level management, as well as and approve and monitor key decisions.

The director's responsibilities are categorized into two. One is the monitoring role involving hiring, firing and compensating managers, while the second is the strategic role, which encompasses advising managers on important key decisions (Masulis *et al.*, 2012; Alzoubi, 2014). The handling of these two roles is required in ensuring the board's effectiveness in adding value for shareholders (Brickley & Zimmerman, 2010; Hermalin & Weisbach, 2003).

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One of the most important functions of the director shareholding is to ensure the financial reporting quality as the main source of information for investor/shareholder decision-making (Cohen *et al.*, 2004; Van Peteghem, Bruynseels & Gaeremynck, 2017). Financial reporting quality is the extent to which the accounting measurement processes capture the firm's underlying economic transactions (Isele & Ugoji, 2009; Dechow, Ge & Schrand, 2010; Schipper & Vincent, 2003). Therefore, it is argued that the director shareholding has a fiduciary duty to oversight activities undertaken by the managers to ensure the integrity of financial reporting (Cohen *et al.*, 2004). In addition, Rodriguez-Fernandez, Fernandez-Alonso, and Rodriguez-Rodriguez (2014) found

director shareholder to have a positive relationship while Omer, Shelly &Tice (2019) found a negative relationship.

Many empirical studies have shown the relationship between directors' shareholders and financial reporting quality. For example, Ritchie and Khorwatt (2007) and Rose, Mazza, Norman, and Rose, (2013) examined the influence of directors' shareholders on corporate governance in the US, Australia, and Europe. The study found that directors' shareholders help enhance corporate governance. The study supported the idea that outside directors are beneficial for the firm and support the hypothesis that there is a direct relationship among directors' shareholders and financial reporting quality because they are truly independent as have been stipulated by the code of corporate governance. Abdullah (2006), and Ismail and Abdullah (2009) examined the relationship between director shareholders and financial reporting quality in Malaysia listed companies. The study found that directors' shareholders have an influence on the financial reporting of firms. This evidence is consistent in suggesting that one contribution to the Asian financial crisis was the effect of corporate governance-related with effective directors.

Rofriguez-Fernandez *et al.* (2014) examine the roles of directors' shareholders in financial reporting quality and review of previous research conducted the study with the sample from Risk Metrics (Responsibility Research Centre) from 2007-2010. Descriptive statistics employed in the analysis to test the relationship between the variables and the finding shows a positive relationship between the tasks performed by such director and financial reporting quality.

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Al Daoud, Ismail, and Lode (2015) explored the influence of board of directors, the board size, CEO duality, board diligence, board financial expertise, and financial reporting quality as well as the type of sector on the timeliness of financial reports. The sample size consists of 112 companies listed on the Amman stock exchange from 2011-2012. Multiple regressions applied between the dependent and independent variable. The result also show that companies that separated the CEO and chairman roles are quicker in publishing financial reports than companies combining the roles of CEO and chairman. Board of directors with more meeting makes the audit report lag shorter. Financial reporting quality could resolve the information asymmetry between management and the external auditor. Management report lag related positively to large board size and board diligence and negatively to the existence of an audit committee (Nelson & Jamil, 2012).

3.2.4 Board Size

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The issue of the board of directors' size and its relation to financial reporting quality discussed in corporate governance-related studies (Abidin, Kamal & Jusoff, 2009; Akhtaruddin, Hossain, Hossain & Yao, 2009; Uwuigbe & Ajibolade, 2013; Haji, 2013). The board defined by a number of studies as the number of directors in the board (Abidin *et al.*, 2009; Akhtaruddin *et al.*, 2009; Clendenin, 1972; Zahra, Neubaum & Huse, 2000). The size of the board is one of the key corporate governance attributes utilized in ensuring the business activities properly conducted by management (Said *et al.*, 2009). The board size is to have an influence on the ability of the board to carry out its function of monitoring and evaluating management (Fama & Jensen, 1983).

A small board could enhance speedy information processing, dissemination, and cohesion among the directors and lead to better monitoring curbing the managerial opportunistic behaviour (Zango *et al.,* 2015). On the other hand, a small board might lack the technicality and expertise; required knowledge actually put the CEO in check and supervised properly. Thus, the results of board size have mixed findings from the academic literature (Husnin *et al*., 2016; Ibrahim, 2015; Htay, Mohd Said & Salman, 2013).

On the other side of the divide, the study that has examined large board size argues that as the board increases in size, there is the tendency for the breakdown in coordination and coherency among the directors (Clendenin, 1972; Kamal Hassan, 2012). This reduces the director's effective control of management. In addition, large directors on the board might find it difficult to come up with new strategies (Goodstein, Gautam & Boeker, 1994), as difficult factors within the board may oppose each other. Furthermore, as asserted by Judge and Zeithaml (1989) large boards may take too much time in making decisions. On the contrary, Dalton, Daily, Johnson and Ellstrand (1999) opine that larger boards have the tendency of having more experienced and knowledgeable hands that could have insights on specific issues like financial reporting accounting.

Furthermore, across the literature board size has mainly be measured using the total number of directors in the board (Uwuigbe & Ajibolade, 2013; Barako & Tower, 2007; Chakroun & Matoussi, 2012; Fodio & Oba, 2012; Haji, 2013; Said *et al*., 2009) and most of the studies find the average number of directors to lie between six and ten directors. Furthermore, The SECN (2011) code of corporate governance for Nigerian

listed companies assert that the size of the board should be such that it is commensurate with the magnitude of the company's operations. It recommended a minimum of five members.

Empirically, prior studies on the relationship between board size and corporate performance measures, financial reporting quality inclusive have mixed findings, hence, providing a need for further research (Duffy, 2004). Said *et al*. (2009) investigating the role of corporate governance variables on financial reporting found no relationship between the size of the board and financial reporting. Haji, (2013) in a similar study on financial reporting and corporate governance found a positive relationship. Chakroun and Matoussi (2012), and Uwuigbe and Ajibolade (2013) examining determinants of the mandatory index and financial reporting quality respectively found a positive relationship. They argue that when boards are large, it is more likely that they include members who tend to favour the increase of the extent of mandatory reports in the annual reports. Haji (2013) found a positive relationship between board size and financial reporting quality but Firoozi, Magnam and Farrina (2016) found no relationship.

Lipton and Lorsch (1992) examine the relationship between board size and financial reporting quality for UK firms. Corporate boards of directors play a central role in the corporate governance of modern companies, and hence understanding this relationship is very important to our understanding of corporate governance (Rodriguez-Fernandez *et al*., 2014). Much of the public debate on board structure has centred on pressure for smaller board size.

It argued that although larger board size initially facilitates keyboard functions, there comes point when larger boards suffer from coordination and communication problems and hence board effectiveness declines (Lipton & Lorsch, 1992; Jensen, 2010). The empirical evidence appears to support this view, with the majority of studies documenting a significantly negative relation between board size and corporate financial reporting. If larger board size indeed causes worse performance, then larger boards would represent inefficient governance that possibly is improved by a one-size-fits-all approach to board size, For example, influential scholars have argued that board size should be no greater than 8 or 9 (Jensen, 1993; Lipton & Lorsch, 1992) for all firms.

Oba (2014) investigated the ability of certain board dynamic to influence management attitude in relation to financial reporting quality in Nigeria listed firms. The sample of the study of 219 companies quoted firms on the floor of the Nigerian Stock Exchange from 2008-2012. The study employed Dechow and Dichev (2002) accrual model to analyse the data between dependent and independent variables. The finding showed that board size to have an inverse relationship on financial reporting quality.

3.2.5 Board Independence

Directors are group into two classes: inside directors and outside directors (Adams *et al*., 2010; Kesner, 1988; Kinney, Palmrose & Scholz, 2004; Amran & Manaf, 2014). Inside directors comprise of the former or current staff of the company and as such, they are holding or have held top executive positions making them the privilege to providing the board with an insight into the happenings of the organization (Brochet & Welch, 2011; Kesner, 1988). Outside directors (or independent directors as they are

sometimes referred to), on the other hand, are directors whose main employment is outside the firm (Brochet *et al*., 2013; Adams *et al*., 2010; Beattie & Fearnley, 2002; Beattie & Jones, 2002).

Although, the independence of some directors that meet the criteria of outside directors is doubtful, because of the affiliation, for example, lawyers and bankers doing business with the company and meeting the requirement of outside directors to be effective (Li *et al.*, 2013). They are extremely important to the organization as they bring to the board their wealth of experience and knowledge gathered from their contacts outside the firm with different companies and different boards (Beatty, 1989; Duc & Thuy, 2013). From the agency theory point of view, non-executive directors could assist organizations to acquire scarce resources through their external affiliations (Pfeffer, 1972; Ghosh & Sirmans, 2003). Some the executives' director lack independence, and jeopardise their function and some of them have secret affairs with the organization, thereby making them lack independent as per their role through their affiliations (Robinson & Owen, 2009; Zhou *et al*., 2018). In addition, some cases their appointment are influenced by the CEO of the firm.

Furthermore, the outside directors are independence are able to ensure proper monitoring done than insiders who be easily dominated by the CEO by the very fact that they work for the CEO on a daily basis (Cornett, Marcus & Tehranian, 2008). As Fama and Jensen (1983) and Fama (1980) posit, the role of the board of directors is to monitor management decisions. They argue that having a higher ratio of non-executive directors on the board leads to better monitoring and reduced managerial opportunism (Levi *et al* ., 2012).

Contrarily, shreds of evidence of independent directors not performing up to expectation could also exist in organizations leading to an adverse effect on the board monitoring capacity, with the main issue relating to non-executive director not who are not truly independent of management (Vicknair, Hickman & Carnes, 1993). Similarly, Percy (1995) posit that independent non-executive directors may be caught in a conflict of interest because they play a dual role of decision-making and monitoring of management which could lead to an adverse impact on the board. In the Nigerian environment, The Securities and Exchange Commission (2011) stipulates code of corporate governance advises that the board should be composed in such a way as to ensure diversity of experience without compromising the independence compatibility, integrity and availability of members to attend meetings. Additionally, it recommends the board should consist of a mix of inside and outside directors, the majority of which should be non-executive directors and at least one independent director. This could enable the non-executive director to be effective and efficient in their responsibilities to influence high financial reporting.

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A number of studies have measured board independence using the ratio of non-executive directors to total directors, combining both the independent and non-independent non-executive directors to the total board size (Abdullah, Ismail & Jamaluddin, 2009; Ali *et al*., 2004; Akbas, 2016; Eng & Mak, 2003). This is compared to other studies, which have used just the ratio of independent directors to total directors as the metric (Haji, 2013; Mohd Ali *et al*., 2008). Furthermore, in Nigeria the board independence is measured as the percentage of non-executive directors to total director, which is not applicable to the developed countries.

Abdullah, Ismail and Jamaluddin (2008) investigated the role of board independence in explaining a firm's distress status. The study found no relationship attributing the result to the passive role of independent directors as a fall out of the nature of their appointment and the conflict of roles. Other studies highlighting mixed results include; positive results (Herda, Taylor & Winterbotham, 2013), no relationship (Haji, 2013), negative relationship (Hamadan, 2012; Mohd Ghazali & Weetman, 2006). Whereas Holtz and Neto (2014) found the positive relationship between board independence and Alves (2014) shows a positive relationship. In summary, there is still conflicting evidence in the relationship between the independence of the board and financial reporting, thus providing a need for further research.

The independence of the board member is responsible for monitoring the quality, credibility and the integrity of the firm's financial reports and compelling top managers to be diligent, credible, and transparent with the financial reports (Fama & Jensen 1983; Nkundabanyanga, Ahiauzu, Sejjaaka & Ntayi, 2013). Another, important role by the independent board member is the ability to monitor firms' manager composition and mechanism to reduce the agency problems, internal control with a sufficient level of external scrutiny that will play an important oversight role in the financial reports (Fama & Jensen 1983; Lynall *et al*., 2003). Previous studies on data of US and UK firms conclude that independent board tend to have less grossing organization (Dechow & Dichev, 2002; Garcia-Meca & Sanchez-Ballesta, 2009) and independent board member constrains manipulation (Davidson, 2005) and incomes quality is improved by the independent board (Ahmed & Duellman, 2007; Chhaochharia *et al*., 2012).

Alves (2014) examines the effect of board independence on the financial reporting quality and the sample of 30 firms whose stock listed in the main market Euronext Lisbon. Using the ordinary least square and two-stage least square (2SLS) techniques to control potential simultaneity problem between board independence and earnings quality. The findings from the study showed that an independent member of the board improved financial reporting quality.

On the other hand, Chaliki *et al*. (2012) investigated the effects of board independence as a corporate governance attribute on financial reporting quality in firm listed in Tehran Stock Exchange (TSE) for the period 2003-2011. The sample of 136 observations were selected for the data for the fiscal year. The study employed descriptive statistics correlation in analysing the data and using multiple regressions in SPSS and Eviews software for the dependent and independent variables. The findings showed that there was no relationship between corporate governance attributes including board independence, board size, ownership concentration, institutional ownership, and financial reporting quality.

The role of the audit committee is increasingly becoming important in the governance mechanisms of many corporations. (Li *et al*., 2012). Said *et al*. (2009) and Bebchuk *et al.* (2008) assert that the audit committee plays a role of reviewing the company's process in ensuring high financial reporting quality. Haron, Jantan, and Pheng (2005) and Nimer *et al*. (2012) argued that the audit committee as a standing committee set up by the board with the objective of contributing to effective corporate governance and ensuring reliable financial reporting.

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Among the core, duties of the audit committee were including overseeing the entire financial reporting process and ensuring an objective external audit by providing the communication relationship between the external auditors and the board of directors (Vicknair, Hickman, & Carnes, 1993). Sori, Mohammed, Abdul-Hamid and Md Nassir (2006) further added that an effective audit committee should possess sophisticated accounting knowledge, review of financial statements and play traditional role in accounting and auditing, in order to ensure auditor independence, good management, and internal control. The board of directors in some cases tends to transfer the responsibility of monitoring the process of financial reporting quality to the audit committee, although, this does not absolve the entire board of their legal financial reporting quality duty.

Section 359 (3) (4) of the CAMA (2004) mandates all companies to establish an audit committee (Corporate Affairs Commission, 1990) in Nigeria. The Securities and Exchange Commission (2011) stipulates that: Audit committees should assist in the oversight of the integrity of the company's financial statements with legal and other regulatory requirements, assessments of qualifications and independence of the external auditor, and performance of the company's internal audit function as well as that of the external auditor. The code further asserts that at least one member of the audit committee should be financially literate to provide the necessary expertise. This implies the efficiency and effectiveness of audit committee in monitoring and ensuring auditor independence in enhancing financial reporting quality.

A review of the literature reveals a number of measures that have been used in the literature as a measurement of audit committee effectiveness such as size, financial

expertise, independence activity, diligence and tenure (Abernathy, Beyer, Masli, & Stefaniak, 2014; Abernathy, Herrmann, Kang & Krishnan, 2013; Albring, Robinson, & Robinson, 2014; Othman, Ishak, Arif, & Aris, 2014). Furthermore, prior studies have studied various attributes of the audit committee and financial reporting and come up with a number of findings. For instance, Abernathy *et al*. (2014) found that committee members with financial accounting expertise gained from public accounting experience were associated with financial reporting quality. Othman, Ishak, Arif and Aris (2014) examine the relationship between audit committee characteristics and mandatory financial reporting of the largest 100 companies in Bursa Malaysia. The result suggests that only two audit committee characteristics (tenure and multiple directorships) are associated with the voluntary ethics disclosure, whilst independence, expertise, meeting frequency and size were inconsistent. This study serves to assist the stakeholders in putting greater emphasis on audit committee in determining ethics disclosure of companies.

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The existence of an audit committee is likely to indicate a commitment to sound corporate governance and a high financial reporting quality. The effectiveness of an audit committee related to the extent to which the committee is independent, whether members have accounting and financial expertise, the frequency of its meetings and its size. Another important characteristic is the number of meetings held with the external auditor (Blue Ribbon Committee (BRC) (1999) but this information is not publicly available and hence difficult to observed.

Generally, it assumed that audit committee members are likely to be less biased and able to exercise oversight function over the client's management if there are not

economically dependent on the company or did not have strong personal ties with management. Hence, we anticipate more independent audit committees to be a strong deterrent to auditor manoeuvrings than less independent audit committees (Carcello & Neal, 2003). In a related study, DeZoort and Salterio (2001) established that independent audit committee members also have greater audit knowledge and tend to protect external auditors in accounting disputes. In view of the foregoing discussion, it is evident that to fulfil its oversight mandate and protect the interest of shareholders, the audit committee must be independent of the company's management. Thus, the effectiveness and monitoring effectiveness of the audit committee depends on the degree of independence of the auditors that could enhance financial reporting quality.

3.2.6 Independence of Audit Committee

Of the various audit committee attributes, independence has the most persuasive theoretical and empirical support because it regarded as one of the key variables associated with the audit committee (Goddard & Masters, 2000). Audit committee effectiveness (ACE) creates integrity, efficiency and effectiveness of independence of the auditor. For that reason, the independence of the audit committee has attracted a lot of scholarly interest (Spira, 2007; Tanyi & Smith, 2014). An independent audit committee is one who is not a current employee of the firm, former officer or employee of the firm or related entity. The audit committee should not also be a relative of management (Dimitropoulos & Asteriou, 2010), professional advisor to the firm, officer of significant suppliers or customers of the firm, interlocking director, and/or one who has no significant transactions with the firm. This is necessary in order not to impair their independence (Robinson & Owens-Jackson, 2009).

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DeZoort and Neal (2001) posit that audit committee members are likely to be less biased and able to exercise oversight function over the client's management if there are not economically dependent on the company or did not have strong personal ties with management. Hence, this study anticipates more independent audit committees to be a strong deterrent to auditor manoeuvrings than less independent audit committees (Carcello & Neal, 2003), while Leong, Wang, Suwardy and Kusnadi (2016) examine three characteristics (independence, expertise, and overlapping membership) of audit committees and their impact on the financial reporting quality for Singapore-listed companies. The findings found a positive relationship on committee independence but Madawaki and Amran (2013) found a negative relationship. These inconsistencies give room for further studies. In a related study, DeZoort and Salterio (2001), and Moses, Ofurum & Egbe (2014) established that independent audit committee members also have greater audit knowledge and tend to protect external auditors in accounting disputes. In view of the foregoing discussion, it is evident that to fulfil its oversight mandate and protect the interest of shareholders, the audit committee must be independent of the company's management. In other words, independent audit committee members are effective monitoring tools because they are free from the demands of the management and enhance financial reporting quality.

Leong, Wang, Suwardy and Kusnadi (2015) examine three characteristics (independence, expertise, and overlapping membership) of the audit committee and their impact on the financial reporting quality. The accrual quality model was employed based on the Dechow and Dichev (2002) and the findings reveal that financial reporting quality will be higher if the audit committee has mixed expertise

and supervisory in accounting. It further shows no evidence in the incremental independence of audit committee already consist of a majority of independence. The result shows no impact of overlapping membership of the audit and remuneration committee of financial reporting quality.

Enofe, Mgbame, Aderin and Oshio (2013) analyze the determinant of the audit committee in the Nigerian business environment. The sample size consists of 100 companies selected from the south-south geopolitical zone of Nigeria. The ordinary least square applied to analyse the data between the dependent and independent variable. The result shows that audit firm size, board independence, and ownership structure positively related to audit quality. Audit committee independence has a significant positive relationship with audit quality and financial reporting quality.

3.2.7 Diligence of Audit Committee

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According to the Tredway Commission (1987) who suggested that, the criteria of expertise and independence not necessarily lead to effectiveness unless the audit committee is diligent. Lin, Li and Yang (2006) added that diligence audit committee enhances the committee's role to execute its duties and responsibilities. As noted by Robinson and Owens-Jackson (2009), diligence audit committees that meet often demonstrate greater commitment and interest and are more likely to be effective monitors.

In other words, the frequency of audit committee meetings indicates whether the entity is diligent. In essence, audit committee diligence generally refers to the eagerness of audit committee members to pursue their terms of reference and goals. Since actual

audit committee, activity is difficult to measure directly, extant literature dominated by the use of the number of audit committee meetings per annum as a substitute for such diligence (DeZoort, Hermanson, Archambeault & Reed, 2002). Nonetheless, a number of other studies have used alternative proxies for the diligence of the audit committee such as its mandatory disclosures, the duties it has to perform and its size. However, the most common substitute used in many studies has been the number of audit committee meetings for each year.

Rochmah and Mohd Ghazali (2012) examine the association between audit committee diligence and timeliness of financial reporting quality. Using a sample of 211 listed companies of non-financial firms in Indonesian the finding shows that timeliness of financial reporting is associated with audit committee diligence. The result suggested that audit committee effectiveness reduce financial reporting lead-time. Yusof (2009) examines the role and responsibility of the audit committee towards credible financial reporting quality is still much the same but the issue of selecting appropriate people with the right mind is the challenge. The development of three variables such as independence, diligence, and knowledge of the audit committee as a sample for the study and ordinary least employed in the analysis to analyse the data. The finding shows that the audit committee with a higher proportion of financial expertise (former senior auditor former CEO) and more diligent audit committee are significant for the purpose. Audit committee with the former senior auditor and audit alumni are associated more diligent with higher financial reporting quality. Previous studies documents that the relationship of audit committee diligence is inconclusive, some are positives and significant, negative and significant while other have no relationship at all. For example, Elijah and Ayemere (2015) found a negative relationship between

audit committee diligence and financial reporting quality. While Rochmah and Nazli (2012) and Zaiee (2014) reported a positive relationship with financial reporting quality. In addition, Said *et al*. (2009) and Leong *et al*. (2016) found no relationship between the audit committee diligence and financial reporting quality. This implies that the more frequent meetings of the board the more the diligence of the board and this could assist in enhancing financial reporting quality.

3.2.8 Size of the Audit Committee

Most of the empirical studies support the notion that audit committee size influences corporate disclosure in the like of (Barako & Tower, 2007; Watson, Shrives & Marston, 2002; Belkaoui, 2001). Among the relationships that exist between financial reporting quality, board characteristics and segmental of the financial statement, the presence of audit committee size emerged as a variable that presents a substantial relationship with such disclosure (Chen & Zhou, 2007). This is mainly because there are more opportunities for firms that grow in size to operate in bigger segmental financial reporting quality, in both business and geographical regards. Therefore, audit committee size is said to be one of the most examined determinants which depends on the size of the enterprise and other relevant factors associated with the firm financial statement and many researchers recognized this element as positively connected to higher financial reporting quality (Al-Shaer *et al* ., 2017).

Bajra and Cadez (2018) examined the impact of audit committee monitoring effectiveness and audit committee competencies on financial reporting quality in public companies in the EU. Using a sample of 2300 firms from listed on the main EU stock exchange over the period of 2004-2013. The finding shows that audit committee

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size in monitoring effectiveness and competencies are positively associated with financial reporting quality while the existence of an audit committee is negatively associated with financial reporting quality.

Firoozi *et al*. (2016) and Leong *et al*. (2016) and Onuorah & Friday (2016) suggested the positive relationship between audit committee size and financial reporting quality disclosure. Farouk and Hassan (2014) examine the impact of audit committee size on financial reporting quality of quoted firms in Nigeria. The sample size consists of data collected from the annual report and account of Nigeria cement company data from 2007-2011. Multiple regressions using SPSS version 15.0 employed to analyse the variable and the findings showed that audit committee size and audit independence have a significant impact on financial reporting statement of quoted cement firms Nigeria.

3.2.9 Expertise of Audit Committee

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The objective of this current study is to examine the impact of the audit committee (AC) expertise on the AC's effectiveness in monitoring the financial reporting process (Bedard, Chlouou & Courteau, 2004; Ge *et al.,* 2008; Rochmah Ika & Mohd Ghazali, 2012; Tanyi & Smith, 2014). Despite the increased responsibilities, authority, independence, and financial expertise requirements placed on ACs by the Sarbanes-Oxley Act (SOX), ACs nonetheless, lack sufficient expertise to understand and thus properly monitor complex specific accounting issues. For instance, expertise in the retail industry may assist ACs to ensure that companies take an adequate write-down of inventory when their products face potential obsolescence. Similarly, revenue recognition, a prominent area of accounting manipulation that the expertise take

expertise and knowledge that entails evaluation and understanding of the earnings process, which is tied to a company's business processes that are often industry specific (Beasley *et al*., 2001, 2010).

These researchers (Carcello *et al*., 2002; Dhaliwal *et al*., 2010; Hoitash, Hoitash & Bedard, 2009; Krishnan & Krishnan, 1997; Bedard & Gendron, 2010) contribute to three streams of literature: studies that examine the association between AC, financial expertise and the quality of the financial reports. The findings show that financial expertise has positive significant association with financial reporting quality. Furthermore, some previous studies (Abbott, Parker, Peters, & Raghunandan, 2003; Carcello *et al.,* 2002) examine the association between AC financial expertise and oversight of the external auditor the results indicates positive relationship between financial expertise and financial reporting quality. In addition, studies by (Carcello & Neal 2003; Krishan *et al*., 2011) look beyond AC and financial expertise in examining the effectiveness of ACs, found that financial expertise enhances financial reporting.

Abernathy, Beyer, Masli and Stefaniak (2014) argue the studies targeting external auditors and internal auditors discovered that both groups had notably lower perceptions of audit committee members' proficiency than those of audit committee members. Despite the difficulty in accessing audit committee member expertise, a number of experimental studies regarding audit committee expertise were conducted (DeZoort, 1998; DeZoort & Salterio, 2001; McDaniel, Martin & Maines, 2002). In this respect, Robinson & Owen-Jackson (2009) note that relatively few studies explore the proposition that financial expertise enables members to better assess and monitor

management actions relating to financial reporting. Hence, financial expertise could assist in monitoring and evaluating the financial process thereby enhancing financial reporting quality.

Elijah and Ayemeres (2015) examine audit committee attributes and financial reporting quality and 50 companies were used with the annual report covering from 2006-2013 as the sample size for the study. Descriptive analysis employed as a measurement to analyse the data with the dependent and independent variable and the finding shows that audit committee characteristics have the constraining effect on financial reporting quality. Audit committee financial expertise, audit committee size, audit committee independence, and diligence show an inverse and significant relationship with financial reporting quality. This resulted to the issue of inconsistencies in prior studies.

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3.3. Importance of independence of auditors

Similarly, the extant literature revealed the concept of auditor independence as the auditors' state of mind, their ability to make objective and balanced audit decisions has a major drawback because it relies on an auditor's personal attributes or characteristics that are unobservable and immeasurable (Fathi, 2013; Lopes, & Rodrigues, 2007; Watkins *et al.*, 2004; Wines, 2006). It is therefore not surprising that scholars, practitioners as well as regulatory and professional bodies have attempted to define auditor independence in a more precise way. Consequently, another concept of auditor independence has been established, that is, "independence in appearance".

Generally, the auditing profession acknowledges two forms of auditor independence, namely, “independence in fact” and “independence in appearance” (Mautz & Sharaf, 1961). Independence, in fact, the auditing profession refers to an auditor’s honesty, objectivity, and mental attitude. Notably, the International Ethics Standards Board (IESBA) of the International Federation of Accountants (IFAC, 2005) describes this notion of independence as the state of mind that permits the expression of a conclusion without being by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional scepticism. It is necessary to mention auditor independence because it will enhance the independence of the audit quality.

The notion of ‘independence in appearance’ requires auditors to avoid any relationships with their clients that might lead financial statement users to doubt their independence or autonomy. In other words, it refers to an auditor’s freedom from possible diverging interests, which might affect public confidence in the auditor’s independence. For instance, the Auditing Practicing Board (2009) defines ‘independence in appearance’ as freedom from situations and relationships, which make it probable that a reasonable and informed third party would conclude that objectivity rather is impaired or be impaired. Independence related and underpins objectivity. However, whereas objectivity is a personal behaviour characteristic concerning the auditor's state of mind, independence relates to the circumstances surrounding the audit, including the financial, employment, business and personal relationships between the auditors and their client.

Auditor capability inextricably linked with auditor independence because if the attribute of capability does not exist, the extent to which the audit opinion can be trusted as an independent or unbiased statement is reduced (Mansouri, Pirayesh & Salehi, 2009). Thus, if the auditor is not capable, independence not guaranteed. In such a scenario, auditors lacking expertise and experience are compelled to depend on the client's management in terms of exercising their functions. According to Mansouri *et al*. (2009), capable auditors are expected to have academic training in accounting, taxation, auditing, and other areas related to their profession. Meanwhile, Daud (2007) indicated that auditors must have a strong educational background with adequate knowledge and expertise in order for them to be regarded as capable. These attributes bother on acquiring the relevant qualification, proper training, and experience.

A number of scholars have highlighted the importance for auditors to enhance their knowledge and experience in dealing with advanced electronic systems in order to assure the integrity and reliability of the accounting processes (Abu-Musa, 2004; Brazel, 2008; Brazel & Agoglia, 2007; Kinney, 2001). In the context of auditing, auditor capability described by Brazel (2008) and Vafeas (2005). As a form of audit knowledge and skill, which is the product of education training and practical experiences (Ojeka *et al.*, 2015). The auditor independence would enhance audit quality thereby improve hign financial reporting.

3.4 Audit Quality Moderating Variable

Furthermore, including measures of moderating and mediating variables is inexpensive, given their potential for providing information about how interventions work and for whom interventions work. Mediating and moderating variables are

important for nonintervention outcome research as well as intervention research. A mediating variable is relevant whenever a researcher wants to understand the process by which two variables are related, such that one variable causes a mediating variable which then causes a dependent variable. Moderating variables are important whenever a researcher wants to assess whether two variables have the same relation across groups. Describing mediation and moderation theory clarifies the purpose of the intervention and forces consideration of alternative interpretations of the results of the study leading to better research design and more information gleaned from the study.

Mediating variables are central to many fields because they are used to understand the process by which two variables are related. The use of mediating variables for design is central to interventions designed to affect behavior. Intervention studies are based on theory for how the intervention is expected to change mediating variables and the change in the mediating variables is hypothesized to be what causes changes in an outcome variable.

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Moderating variable is the case which intervention has a different effect at different values of the moderating variables. Moderating variables are relevant whenever the researcher wants to assess whether two variables have the same relation across groups (Fairchild & MacKinnon, 2014). A moderating variable strengthens, and also can weaken the relationship between an independent and dependent variable (Kraemer, Wilson, Fairburn & Agras, 2002). A moderator variable can be continuous or categorical variables and specified before a study as a test of the theory or they be investigated after the study in an explanatory search for different relation across subgroups (Al-Shetwa *et al*., 2011; DeAngelo, 1981; Gaynor *et al*., 2016).

The Big 4 audit firms are multinational organizations and, in most cases dominate the auditing market in most countries (Bavishi, 1989; Ball & Shivakumar, 2005, 2006; Moizer & Turley, 1989; Okike, 1998), the implication being that they have the resources to hire the best hands, provide quality training and retain highly skilled staff. While studies such as Camfferman and Cooke (1992), Mahmood (1999), Naser and Nuseibeh (2002), and Raffournier (1995) found a positive relationship between financial reporting quality statement and auditor. This implies that audit quality could enhance financial reporting quality. Al Saeed (2006), Barako and Tower (2007), Owusu-Ansah and Yeoh (2005) and Balsam, Krishnan, and Yang (2003) did not find any significant relationship between audit quality and financial reporting quality. Mgbame, Eragbhe and Osazuwa (2012) asserted that the proxy of audit tenure could measure audit quality and the result showed a non-significant relationship. Their current study conceives of a positive relationship between the corporate financial statement and auditor quality for a sample of Nigerian companies (Alrshah, 2015; Farouk & Hassan, 2014; Salehi & Kangarlouei, 2010). Thus, audit quality could assist in improving the relationship between board characteristics and financial reporting quality in Nigeria.

At the inception, it should be pointed out that the terms 'audit quality' and auditor quality' are assumed to be synonymous, and this is in line with (Clarkson and Simunic's 1994; Jang & Lin, 2008; Lin & Hwang, 2010) suggestion. Although a precise definition of auditor quality is difficult to identify, the most common definition for audit quality is, however, derived from Ball, Kothari and Robin (2000) and DeAngelo (1981), who presents it as the co-existing probabilities that an auditor will detect and also report any infringement in a client's accounting system. This definition

captures auditor quality as the ability of an auditor to discover accounting misstatements and then to express them in a suitable audit opinion (Vanstraelen, 2000; Carey & Simnett, 2006). What is vital about this definition is that it captures attributes crucial to understanding the influence of the audit on financial reporting quality information. DeAngelo (1981) further argues that auditor's major task in providing different levels of quality and as such, if a company wishes to change audit quality it must change auditors (Habib, Jiang, Bhuiyan & Islam, 2014; Habib & Hossain, 2012).

From the regulator's angle, the ICAEW (2005) defines auditor quality as the ability to deliver an appropriate professional opinion supported by the necessary evidence and objective judgments (Kilgore, Radish & Harrison, 2011). Duffy (2004) reported that auditor quality is of both technical quality (consisting capability, reputation capital, experience, expertise, and independence) and service quality (empathy, responsiveness, and the block shareholder and client services). In short, service financial reporting quality represents the levels of clients' satisfaction and expectations. Conclusively, the study defines auditor quality as the ability to enhance the degree of confidence of intended users in the financial statement. It is (measured with the proxy of Big 4 and audit tenure). This is achieved by auditors gathering sufficient and appropriate audit evidence in order to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Kamolsakulchai (2015) investigate the relationship between the audit committee effectiveness and audit quality on financial reporting quality. The sample size of panel data collected from listed companies of Thailand from 2008-2012 using panel fixed

effect model in analysing the data. The findings show that audit quality had a significantly positive relationship with financial reporting quality. Ziaee (2014) examines the relationship between audit quality and financial reporting quality of all the listed companies of Tehran stock exchange from 2008-2012. The statistical excel package of SPSS version 19.0 applied in the data analysis. The findings show a positive relationship between audit quality, the audit board size, and financial reporting quality.

Nelson and Jamil (2012) investigated the effectiveness of audit quality on Government Link Company's (GLCs) transformation program through their audit committee and financial reporting quality. The variables were analysed using binary logit to examine the association between the variables. The findings show that GLCs for post-transformation are likely to have higher numbers of audit committee independence ensuring audit committee effectiveness as recommended by the Green book to improve the financial reporting quality.

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Enofe, Ediae, and Ejiemen (2013) and Okere, Ogundipe, Oyedeji, Eluyela, and Ogundipe (2018) evaluate the relationship between audit quality and financial reporting quality and 20 companies chosen as the sample size from selected companies in the Nigeria stock exchange to the ending from the period of 2011. The findings reveal that as audit quality improves the independence of the board and the ownership structure increase financial reporting quality. Furthermore, Adeyemi, Okpala, and Dabor (2012) investigate the factors affecting audit quality in relation to financial reporting quality in Nigeria. The sample size of 430 respondents with users of the financial statement selected. Descriptive statistics employed to analyse the data

between the independent and dependent variables. The results show that audit quality has a significant effect on financial reporting quality. Dandago and Rufai (2013), and Okolie and Izedonmi (2014) aim in assessing the role of audit quality on the financial reporting quality statements of money deposit banks in Nigeria. In assessing the independence of an auditor and the level of compliance to audit guidelines and in what way these guidelines affect the quality financial reporting of money deposit bank in Nigeria. The study employed ANOVA variance regression and judgmental technique. The results reveal that audit quality enhances the consistency and reliability of external auditor and the financial statement of the money deposit bank.

From the previous studies, there are inconsistencies among the variables according to Baron and Kenny (1986) and Mackinnon (2011) the introduction of Big 4 and Audit tenure to moderate and strengthen the relationship between the dependent and independent. It is consistent with the agency theory, which states that board mechanisms are important monitoring devices that govern audit quality which help to enhance the quality of financial reporting quality (GarcíaMeca & Sánchez-Ballesta, 2009). The Big 4 and audit tenure will foster financial reporting quality and ensure relevance, reliability, and confidence to all stakeholders in the financial reporting quality (Abbott, Daugherty, Parker, & Peters, 2016; Alrshah, 2015).

3.5 Big 4 and Auditor Tenure

Previous studies documented that big 4 audited firms and audit tenure could enhance financial reporting quality (Bala et al., 2018; Joriani et al., 2018). The big 4 audit firm are duty banned to disclosed to the diversified stakeholders the information needed by the stakeholders who have invested in the company on equity capital so that the timely

disclosure would enable monitoring, evaluating and measuring the performance of management. While the audit tenure could be able to check the irregularities in the financial statement.

3.5.1 Big 4 Audit Firms

The Big 4 is the nickname used to refer collectively the four largest professional services network in the world. They offer such services as audit, assurance, corporate finance, consulting, tax and legal services and among others. The firms include the PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Young, and KPMG. These firm are not single firms but made up of a network of other firms who managed and owned independently from each other. The Big 4 audit firm produces high and standard quality of financial statement (Francis & Wilson, 1988).

The credibility of the financial statement depends upon the quality of the auditor and researchers report finding from the US indicates that Big 4 firms are perceived as providing higher quality audits and enhance assurance of financial statement (Bala *et al*., 2018). Agency theory posits that credible and reliable financial reporting reduces the problem of conflict between corporate managers and shareholder (Jensen & Meckling, 1976). Big 4 firm as providing higher quality audits and more credible financial statements than non-Big 4 firms do.

Big 4 firms have sought to differentiate themselves from other audit firms by investing more in reputation capital (Beatty, 1989). The Big 4 audit firm are known by competence by their competence by virtue of their heavy spending on audit training facilities and independence. Big 4 firm are transparent about their audit approach and

the quality of their delivered reports. They are also associated with a lower ex-ante cost of equity capital for the auditee. For Big 4 firms to produce higher quality audit, litigation risk to provide the Big 4 firms an incentive to provide higher quality audit consistent with their brand name reputation (Sumunic & Stein, 1996). The Big 4 firms in this study measured by the dichotomous variable of Big 4 being the auditor of the firm (Francis, 2004).

According to prior studies, big 4 audit firms have been used as a moderator. For instance, Bala, Amran and Shaari (2018) used big 4 audit firms as a moderator and the finding reveals that financial reporting quality was improved and the high level of financial statement was achieved and reduce the issue of falsification in the accounting system. In addition, DeFond and Zhang (2014) also use the big 4 audit firms as a moderator in their study and their findings show that the effectiveness of the big 4 firms and were able to reduce the earnings management, that is, enhance financial reporting quality. Similarly, Okere *et al.* (2018) also used big 4 audit firms as a moderator in their study and they asserted how the big 4 audit firms to detect accounting misstatement and control the internal system thereby improving financial statements. While Salaudeen *et al*. (2015) used big 4 as moderator and their result reported the effectiveness and efficient of big 4 audit firms reducing the manipulation of auditors and enhanced financial statements. Accordingly, the used of big 4 audit firms as a moderator is suitable in this study.

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3.5.2 Audit Tenure

The impact of auditor tenure on audit quality cannot be overemphasized in the accounting literature (Kim & Cheong, 2009). There have been divergent opinions

concerning audit tenure. Some schools of thought have the favour of long tenure relationship between the auditor and auditee. Long tenure relationship allows the auditor to gain experiences, the expertise of the operation clients and makes the auditor more efficient. It also enhances the ability of the auditor to detect irregularities in the book of account of the clients (Fairchild, 2008). However, this can also lead to increased fraud incentive. The increase in tenure could increase the independence of the auditor and auditor empathy towards the manager implying financial scandal. This implies the longer the tenure; the auditor could understand the accounting system of the firm thereby enhancing the independence (Asthana, Balsani & Krishnan, 2010). Carcello and Nagy (2004) and Chi and Huang. (2005) posit that audit failures are more likely to occur with short audit tenure of between 2-3 years.

Auditor tenure has two dimensions; the tenure of the audit firm and the tenure of the individual partner engaged in the audit. Empirical evidence of the effect of audit tenure on audit quality is mixed and conflicting. Auditing Practices Board (2009) suggested auditor tenure adds credibility and reliability to the financial statement by providing independent verification of management provided on financial reports and help to reduce investor information risk (Watts & Zimmerman, 1986). Audit tenure could reduce corporate scandals and collapses that cast doubts and eroded audit quality (Imhoff, 2003). Audit tenure measured as the numbers of consecutive years the audit firm has audited the client financial statement (Johnson, Khurana & Reynolds, 2002). The audit tenure has the ability to check the irregularities in the accounting financial system. In addition, the audit tenure could assist in checking the internal control system of the firms and evaluate the external auditor in order to enhance the financial reporting quality.

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Furthermore, previous study have used audit tenure as amoderator such as Jorjani, Safari and Gerayti (2018) used audit tenure as moderator and their findings indicate a significant positive association of board characteristics variable and financial reporting quality. In addition, Gonzalez-Diaz, Garcia-Fernandez and Lopez-Diaz (2015) in their study also used audit tenure as a moderator aver that the presence of auditor tenure improved the financial process and reduce the opportunistic asymmetry behavior of the board of director and improved high financial reporting. Similarly, Barbadilo and Aguilar (2008) used audit tenure as a moderator their result indicates the effectiveness and efficient of longer audit tenure in detecting accounting frauds in the financial statements. In addition, Daniel and Brooks (2011) utilized audit tenure as a moderator the result reveals the efficacy of audit tenure in checking the irregularities in the accounting system and enhance high financial statements. Firth, Rui and Wu (2012) used audit tenure as a moderator and their findings show that audit tenure could be active in checking the accounting misstatement, manipulation, overstatement of accounting figure and increased financial reporting quality. Similarly, the used audit tenure as a moderator is appropriate in this study.

3.6 Firm Size

Firm size is one of the variable used by various studies to explain financial reporting quality. Evidence from literature reveals that the size of a company measured in several of ways, such as company's average market value, turnover, a number of employees, and total assets (Craven & Marston, 1999; Kansal, Joshi & Batra, 2014; Setyorini & Ishak, 2012).This indicates that firm size could enhance financial reporting quality.

Theoretically, from the agency theory viewpoint there exist a positive relationship between the size of the firm and financial statement as large firms have a desire for external capital, and this in turn, increases the potential agency cost that arises as a result of the conflict of interests between managers, debt holders and shareholders (Eng & Mak, 2003). A number of studies have also supported this view (Alarussi, Hanefah, *et al*., 2009; Barbu, Dumontier, Feleaga & Feleaga, 2014; Cho *et al*., 2012; Shaverdi *et al*., 2016). Barbu, Dumontier, Feleaga and Feleaga (2014) provide evidence showing that large firms are likely to comply more with financial statements IAS/IFRS than are smaller firms, by asserting that financial reporting quality disclosure enables firms to reduce societal and board characteristics related with financial reporting quality issues (Liu & Lu. 2007). Similarly, Buniamin (2010) provide insights that firms that are highly visible to the public of their size tend to report more in an attempt to improve their image. In addition, Setyorini & Ishak (2012) assert that larger companies across products and geographical markets and thus have a greater need for disclosure to satisfy their diverse stakeholders.

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3.7 Profitability

Profitability is another important factor influencing financial statement, and this is reflected in most of the previous studies on financial statement (for example refer to Ahmad *et al.,* 2003; Alarussi, Selamat & Hanefah, 2009; Barako & Tower, 2007; Hackston & Milne, 1996; Haji, 2013; Haniffa & Cooke, 2005; Janggu, Joseph & Madi, 2007; Uwuigbe & Egbide, 2012). It has been measured using a number of ratios such as earnings per share (Alarussi *et al*., 2009), return on assets (Setyorini & Ishak, 2012; Uwuigbe & Egbide, 2012), profit after tax and return on capital employed (Kansal *et al*., 2014).

Most of the studies find a positive relationship between profitability and financial statement. For example, Haniffa and Cooke (2005) base their arguments from a legitimacy theory perspective. They argue that profitable companies will disclose more in an attempt to justify their presence to shareholders. Similarly, Haji (2013) studying Shari'ah compliant companies attribute increased disclosure to the Islamic beliefs of sharing profit to less privilege.

3.8 Underpinning Theories

The board characteristics and financial reporting quality accounting literature developed since the past few decades and there have been a number of theories that used by different studies to explain the factors that may likely influence the level of financial reporting quality. However, there is no well-known theory that explains board characteristics and financial reporting determinants. Consequently, there is no single theory that explains how board characteristics relate to financial reporting quality. Riahi Belkaoui (2000) asserted the roles of theory in aligning the corporate phenomena and practical issues with the related theoretical relationship being overemphasized. Alles, Kogan, and Vasarheyi (2008) posit that the agency and stakeholder theories assist in shaping, analysing and interpreting any concepts in relation to the inherent practical implications. This study will adopt the agency theory as its main theory and supported by stakeholder theory. The agency theory could solve the problem of the agency conflicts between the managers and the shareholders. In addition, the stakeholder theory could assist the firms in the relationships between the shareholders, management, audit regulation, regulations of the firms, creditors and lenders, auditors, employees and the public.

3.8.1 Agency Theory

Agency theory provides a framework for the study of the relationship between board characteristics and financial reporting quality Riahi-Belkaoui (2000). The agency theory posits that the separation of ownership from the control of the organization encourages managers to maximize their wants and pursue interests contrary to the desires of the owners (Jensen & Meckling, 1976; Bahmani, 2014). In order to prevent this, board mechanisms initiated to keep the managers under control. The parting of the ownership from the control function prevents the principal (shareholders) from being in the position to take managerial actions (Fama & Jensen, 1983; Fama, 1980; Kao & Wei, 2014). Thus, the principal lacks access to all relevant information necessary to access what the managers are doing. This is what referred to as the agency problem (Evans & Weir, 1995). It said to arise a result of contracts not enforced to the detailed (Fama & Jensen, 1983).

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The control is extremely important most especially when the management who are responsible for initiating and implementing the decisions are not the main beneficiaries and therefore do not enjoy a huge chunk of the proceeds of their decisions (Fama & Jensen, 1983, Riahi-Belkaoui, 2001). The problem if not properly managed could lead to two key conflicting issues between the agents and owners. Firstly, in terms of differing objectives, as the main concern of the shareholders is to maximize their wealth, while on the other hand managers have various psychological and economic needs ranging from higher salaries and emoluments to power enrichment.

Another form of agency problem that is gaining grounds rather rapidly especially among large corporations is that of domination of minority shareholders by controlling

shareholders (La Porta *et al*., 1999). This problem can also be described using the term tunnelling, which is the transfer of resources out of the firm for the benefit of controlling shareholders (Johnson, La Porta, Lopez-de- Silanes & Shleifer, 2000). The tunnelling of firm value by controlling shareholders includes activities such as loan guarantee, outright theft, and disposal of the company's assets or products below the prevailing market price. These issues are particularly prevalent in emerging markets characterized by weak governance mechanisms (Liu & Lu, 2007).

Therefore, opportunistic behaviours cannot be ruled out, as it is one of the assumptions of agency theory, that there lies information asymmetry between the shareholders and managers, or between minority and controlling shareholders and that, this is linked to the corporate financial statement (Diamond & Verrecchia, 1991; Ball & Shivakumar, 2006). Information asymmetry is cases where managers have access to more privy information within the organization (Abidin *et al*., 2009). In a more specific term financial statements brings investors closer to the affairs of the company and hence reduce the perceived gap between the investors and management (Akhtaruddin *et al*., 2009).

Agency theory suggests that companies may undertake different approaches such as compensation initiatives or mandatory financial statement to reduce the conflict of interest between shareholders and managers. An organization deviating from board attributes action by mandatory financial reporting quality information may direct shareholder's attention from monitoring activities of the management (Stanton & Suttipun, 2012). The managers (agents) hired by shareholders (principals) to make decisions that are to benefit the shareholders (Abidin *et al*., 2009).

Furthermore, Fama and Jensen (1983) assert that an efficient order of procedures for decision control will ensure that the control (ratification and implementation) of the decisions separated from the management (initiation and implementation) of the decisions. In other words, what should constitute control is a situation where an individual does not perform the management and control over the same decision. To this end, agency theory looks at the tendency of directors to act in their own best interests contrary to the best interests of the shareholders. Managers may arrange transactions and report such transactions in an opportunistic way. Hence, agency theory focuses on the protection of ownership rights of shareholders; while the corporate governance focuses on the effective and efficient accomplishment of transaction and reports. Insomuch as the trust placed by shareholders on directors to operate in their best interest misplaced in the relationships, which will lead to high financial reporting quality (Ican Study Pack, 2009; Tricker & Tricker, 2015).

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Drawing on the work of Jensen & Meckling (1976), Fama and Jensen (1983) seek to explain the survival of organizations characterized by the separation of ownership and control and to identify the factors that facilitate this survival. Their paper is concerned with the survival of organizations in which important decision agents do not bear a substantial share of the wealth effects of their decisions. The structures suggested by the agency theory for the enhancement of corporate transparency and improved financial reporting quality in the agency theory (Ujunwa *et al*, 2013). These include the board of directors and the audit committee, which designed to constrain managerial decisions and reduce agency costs associated with the separation of ownership and controls. In spite of the criticisms against agency theory, economics and finance

literature still use it to anchor their studies; as such, this study also adopts it as the underpinning theory. The next sub-section discusses the stakeholder theory.

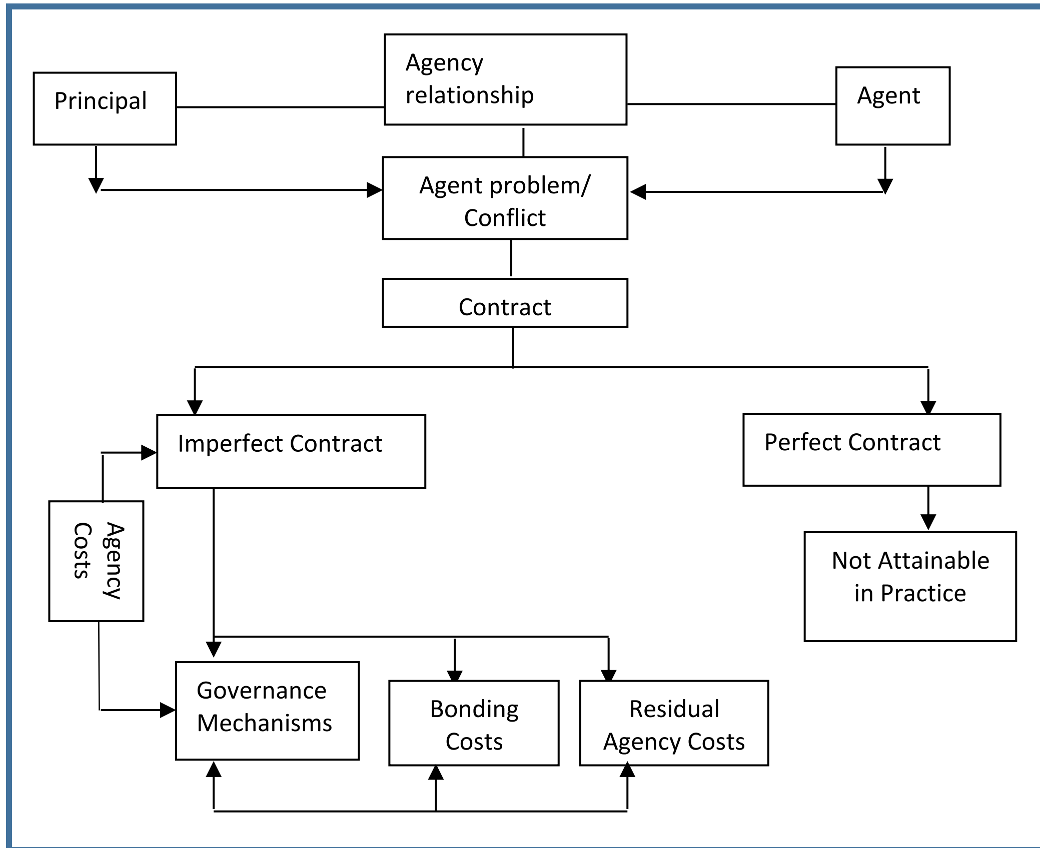

Figure 3.1 Agency Theory perspective

Source: *Cullen, Kirwan, and Brenan (2006)*

3.8.2 Stakeholder Theory

The idea that corporations have stakeholders has become commonplace in the management literature both in academia and other professional establishments since the publication of (Freeman, 1984; Ayuso *et al.,* 2014; Jones & Wicks, 1999). Theoretically, the stakeholder theory empirically posits that the existence of any corporate entity and its sets of activities at the benefit of the company's shareholders,

rather such existence should be enshrined to benefit all the interested stakeholders (Freeman, 2010; Freeman *et al*., 2004; Mallin, 2010; Tricker &Tricker, 2015).

Included among the interested parties in any business activities are its shareholders, customers, suppliers, employees, suppliers, government agencies, credit providers, local communities, the public and so forth (Dillard & Yuthas, 2001; Jones, 1991; Mallin, 2010). In the increasingly more environmentally and socially concerned world of the 21st century, the notions of board characteristics and sustainability reporting have commanded a lot of attention (Labelle *et al,* 2010). It is therefore not surprising that the stakeholder approach to board characteristics that call for boards of directors to take into consideration the interests of a diverse range of stakeholders has also attracted a lot of scholarly and corporate interest (Friedman, 1970).

Undoubtedly, a major argument by those that theorized the stakeholder theory is that corporate entities are practically managed in a dynamic way that will serve the diverging interests of key stakeholders. Hence, the ability to effectively coordinate these diverse interests would positively influence the organization's ability to formulating good corporate strategies that would seemingly generate the desired outcomes. Phillips (2003) attested that the extent of theoretical arguments for stakeholder's theory on issues of moral justifications and ethical considerations in business activities are very important. However, critics view stakeholder ideas as problematic because meeting the conflicting needs of stakeholders and shareholders is not feasible due to numbers of shareholders that the stakeholders would attend to even to the public and entity, in which the organization is in operation (Tricker & Tricker, 2015).

The so-called stakeholder versus shareholder dilemma demonstrates that management or agents cannot serve two masters at the same time. Although this stakeholder's theory is much related in this study, still available evidence has shown that it has empirical evidence of measurability establish its applicability on issues of board characteristics (Hendry, 2001). Unlike the agency theory of controlling business interest, the stakeholders' theory has not suggested any measurable variables that researchers can use to proxy for measuring the different stakeholders' interest in a company. Notably, for the purpose of this study, the researcher has used stakeholder theory to provide alternative explanations (Brenner & Cochran, 1991) for the nature of interactions between the business and its stakeholders.

A recent variant of stakeholder theory, the enlightened shareholder theory attempts to go beyond the stakeholder versus shareholder dilemma (Jensen, 2010). This implies that the stakeholder theory could go beyond the auditor, management, and employees and to the lender, creditors, government and public in this study. This new approach recognizes the primacy of meeting shareholders' interests, but it also acknowledges the importance of satisfying stakeholders' interests as well (Jensen, 2010; Mallin, 2010; Tricker & Tricker, 2015). This theory advocates for a win-win scenario. Conclusively, this study strongly believes the stakeholders' theory has a major impact on establishing the theoretical linkages that exist between the shareholders, board characteristics, audit committee members, audit quality, financial reporting quality, and the public. It thus means that this current study is theoretically linking in its ability to establish the practical linkage between the aforementioned variables of interest with the stakeholders' theory.

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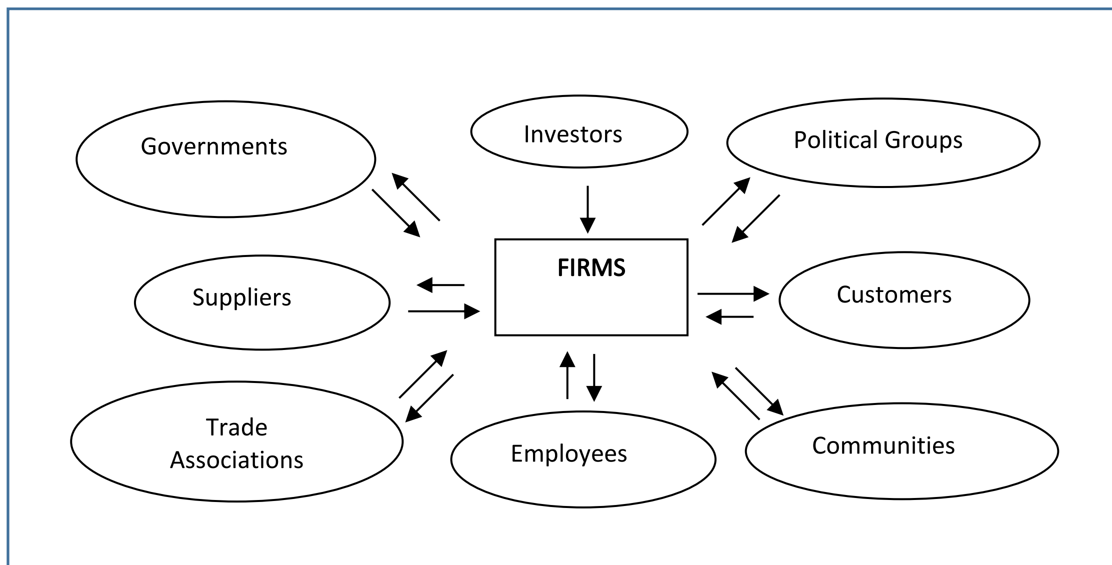

Figure 3.2 The Stakeholder Model.

Source: Donaldson and Preston (1995)

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Stakeholder theory offers a framework for determining the structure of governance and operation of the firm and cognizant of the myriad participants who seek multiple and sometimes diverging goals (Donaldson & Preston, 1995). Sundaram and Inkpen (2004) argue that empirical evidence supports a link between stakeholder theory and financial reporting quality. From the empirical evidence, the stakeholder theory is adopted in this study. These stakeholders encompass all the sectors that comprise the organization. The theory posits that there are interested parties apart from the shareholders and high-quality financial reporting is important to these stakeholders. This theory assist the shareholders in decision-making and it encompasses all interested parties that are involved in the business activities. Thus, creditors, for instance, show interest in the financial information of a firm and rely on the quality of reporting to obtain vital knowledge about a firm (Elijido-Ten, 2009; Jensen, 2010). In

summary, board independence, audit committee diligence, financial expertise and audit tenure interaction were based on stakeholder theory.

3.9 Prior Studies on Financial Reporting Quality

Prior studies that have examined the audited financial statements find that the companies' specific attributes are significantly associated with board characteristics (Popova *et al.,* 2013; Kent & Stewart, 2008). For example, the size of companies (proxied by total assets or market capitalization), whereby large companies are expected to announce their financial reports on a timely basis than small companies as they are being more closely monitored by the shareholders and regulators (Barbu *et al*., 2014). In addition, board characteristics are expected to influence the profitability of a company, whereby companies with strong financial standing, are more likely to disclose their financial results early (Abbott *et al.,* 2016). Furthermore, industries which have variations in their type of assets, technology requirements, commitments on capital expenditures and growth rate, have a significant association between the type of industry and the company's board mechanism (Popova *et al*., 2013).

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Prior studies that have examined board characteristics and financial reporting quality, reported those effective boards can reduce earning management and in turn increase financial reporting quality (Hossain *et al*., 1994; Alzoubi, 2014; Holtz, 2014). Htay *et al*. (2013) report that board independence and executive director positively influence the quality of reported accounting information. On the other hand, Ruiz-Barbadillo and Gomez-Aguilar (2002) documents that financial reporting is not an important determinant of the market for directorship. Also, Amran and Manaf (2014) reports that board independence does not actually have the power of 'independence'

monitoring and advising the board of directors that lead to adverse effect on financial reporting quality. From the above studies and others that have investigated the relationship between board characteristics and financial reporting quality but their findings are inconsistent evidence such as (Peyravan, 2016; Holtz, 2014; Hassan, 2015).

Prior literature also used audit committee variables with financial reporting quality (Abernathy *et al*., 2014; Othman *et al*., 2014; Sultana *et al*., 2015) to determine the effect on financial reporting quality, therefore, studies thus far have looked at the audit committees in isolation to examine governance implications. This current study combined the board and audit committee characteristics to examine the effect on financial reporting quality and to have effective and comprehensive results. In developing countries as Nigeria studies linking board characteristics and financial reporting quality of listed companies are still limited (Bello, 2013; Nwonyuku, 2012; Nyor, 2013). Therefore, in addressing the research gap this current study attempts to explore the influence of board characteristics and financial reporting quality and audit tenure and Big 4 as a moderator.

In relation to the board characteristics, it highlighted that there are limited studies on the interaction among board characteristics (Carcello *et al.,* 2011). Further, the authors claim that the lack of interaction between these board mechanisms may result in undetected material financial reporting risks by the audit committee. Similarly, Habib, Bhuiyan, and Uddin (2015) reiterate that there is far too little attention given to the effect of board characteristics on financial reporting quality. In addition, the relationship between board and audit committee characteristics and financial reporting

quality in Nigeria is minimal to the best knowledge of the researcher. To sum up, the results from the literature on the association between board characteristics and financial reporting quality are still inconsistent and contradictory. Accordingly, the present study attempts to develop a better understanding of the relationship between the variables.

Prior studies have employed earning management as a proxy for financial reporting quality (Habib *et al*., 2015) and restatement (DeFond & Zhang, 2014) the finding provides strong evidence of poor financial reporting quality. This limitation has prompted the consideration for other factors that may be affecting monitoring and those related to financial reporting quality. It is believed that financial reporting index used as a proxy and is well suited for the study as it is capable of detecting potential financial misreports by companies, which are in line with the study objectives.

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3.10 Literature Gap

The issue of lack of enforcement, compliance, and transparency in the corporate governance structure in Nigeria is still reoccurring. The government of Nigeria ordered the World Bank in 2004 (ROSC, 2004) to find out the state and implementation of financial reporting. The World Bank in 2004 observed that the financial reporting by the corporate organization was deficient. Previous studies have examined the financial reporting quality in Nigeria. This conclusion has been supported by many empirical studies including those of Adeyemi (2006), Ebringa and Kule (2014), Ofoegbu and Okoye (2006), Okike (2000) and Wallace (1988). Oluwagbemiga (2014) opines that the Security and Exchange Commission (2012) set up the standard for the corporate governance to address the issue of transparency, honesty, and enforcement of

regulations for listed firms in Nigeria and yet the problem of lack of compliance and transparency still exist. From literature presented, as a above, inconsistencies, board impairment, lack of enforcement and compliance of standards, weak corporate governance therefore there is a need for further comprehensive study.

Agency theory explains the relationship between the agent and principal. The principal (owner) delegates the responsibility to run the business to the agent/manager (Jensen & Meckling, 1976). Consequently, these two parties have divergent goals and objectives known as conflict of interest and this degenerate to information asymmetry, which refers to the scenario where the agents (managers) are having information the advantage as compared to the principals (owners). The managers are involved in the day-to-day running of the business this makes them have the advantage of information that might not be distributed or shared with others including the owners. This unresolved agency conflict still exists and there has not been the solution to address this problem.

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Additionally, issue of poor state of financial reporting is paramount in the annual report in companies quoted on the Nigerian Stock Exchange (NSE) against the scenario of the increased expectation by stakeholders towards the identification of approaches to addressing effectively and efficiently financial reporting quality (Uwuigbe & Ajibolade, 2013; FRCN, 2015; Omoh & Komalafe, 2015; Owolabi & Dada, 2011). This current study would assist the regulatory bodies in improving the enforcement and the compliance of the standards.

The lack of in-depth study on board characteristics, audit quality and financial reporting quality-and the issues of mixed and inconsistent findings from previous

literature still exist. According to Baron and Kenny (1986) and Fairchild and Mackinnon (2014) when there are mixed findings between an outcome variable and a predictor variable a moderator may be introduced. Against this background, this study addresses these contextual issues by extending the literature of board characteristics and financial reporting quality introduced the moderating variable of (Big 4 and audit tenure). Audit quality has the capability to enhance financial reporting from previous study (Al-Shetwa *et al.,* 2010; Gaynor *et al.,* 2016). This study will fill this gap by using big 4 and audit tenure as a moderator in examining the relationship between these variables.

3.11 Chapter Summary

In this chapter, an attempt was made to provide reviews on board characteristics, audit quality and financial reporting quality in Nigeria including the different theoretical models. The chapter conducted a review of the agency theory and the stakeholder theory as they affect financial reporting quality. The agency theory shows the existence of conflicts in companies between shareholders and managers of the separation of ownership control. The stakeholder theory take the cognizance of the board independence, audit committee diligence, financial expertise and audit tenure interaction. The board characteristics and financial reporting quality as mechanisms for mitigating the agency conflict discussed.

An examination of the prior literature on the relationship between board characteristics and financial reporting quality as discussed in this chapter provides equivocal findings. The reasons for these mixed findings could be attributed to country specifics, methodology, and data used for the studies. It is imperative to acknowledge that there

are few studies from Nigeria examining the influence of board characteristics audit quality and financial reporting quality. Specifically, prior studies have ignored the moderating effect of audit quality (Big 4 and audit tenure) on financial reporting quality. The current study fills this gap. The next chapter explains the theoretical framework and research methodology of the study.

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CHAPTER FOUR

RESEARCH FRAMEWORK AND METHODOLOGY

4.1 Research Framework

Based on the evidence from existing literature, the current study develops a research framework that shows the link relating to board characteristics, audit quality, and financial reporting quality. The relationships between these key factors are illustrated in a framework for this research as depicted in Figure 4.1. From previous studies, the researcher develops a linkage that an understanding and knowledge of board characteristics and their application in organizations are likely to contribute positively to audit quality and by implication to the financial reporting quality (Botti, Boubaker, Hamrouni & Solonandrasana, 2014; Tao & Greenwood, 2014). Hence, the conceptual framework in this study looks into the relationships that exist among the main conceptualized constructs including their proxies. Theoretically, agency and stakeholder theories provide the basis for these inter-relationships as conceptualized in this research framework to find out the outcome and suggestions for improving the financial reporting quality in Nigeria. Below is the conceptual framework for the study.

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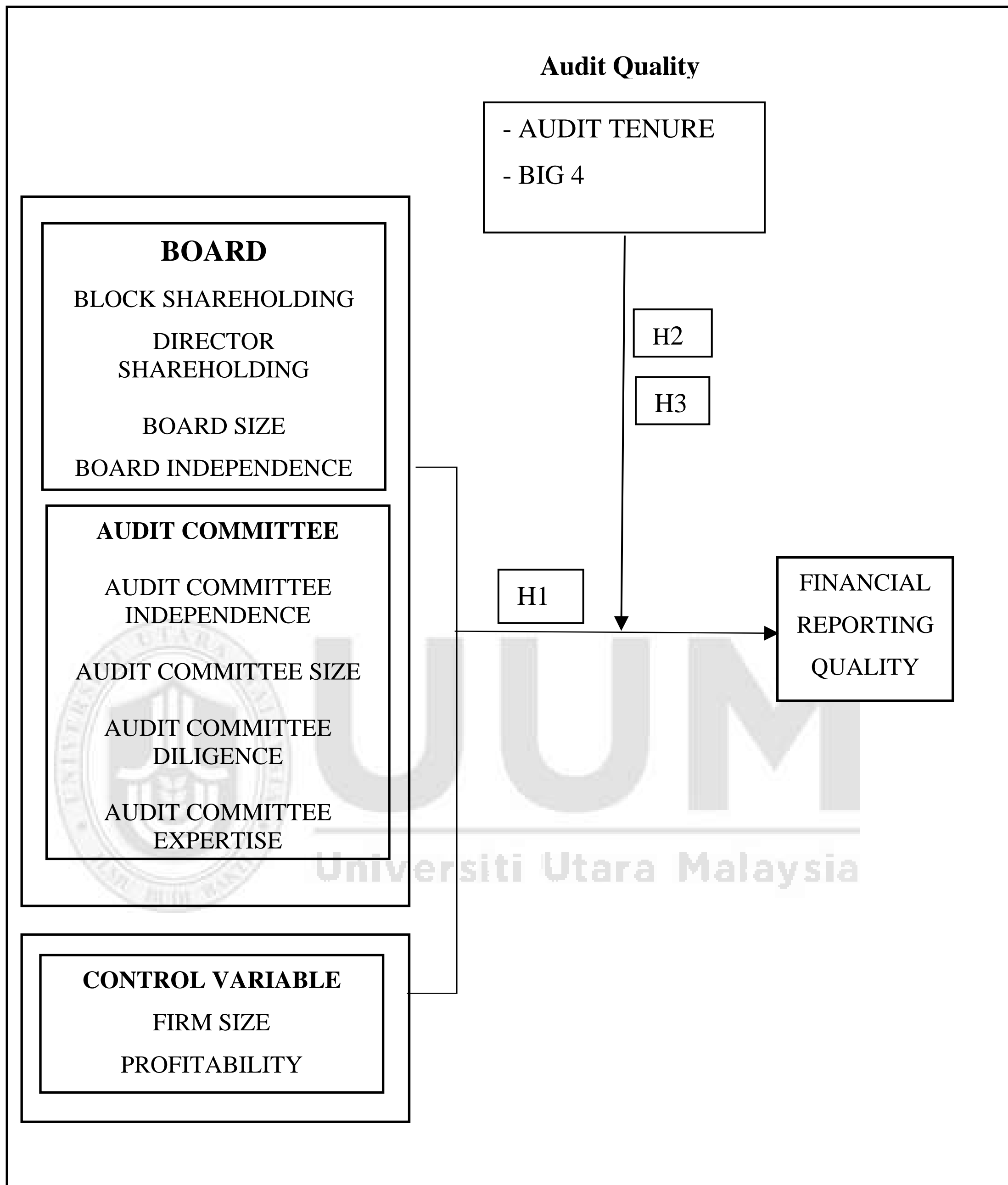

Figure 4.1 Conceptual Framework

Adapted from Alrshah (2015)

Figure 4.1 offers a framework that explains financial reporting quality. The framework was adapted from Alrshah (2015) and some of these variables have been tested from previous studies. The variables include audit committee independence, size, diligence

and expertise with mixed findings. According to Baron and Kenny (1986), the maximum numbers for moderating variable can be used is two variables. The audit quality proxy are the big 4 audit firms, audit tenure, audit competence, audit specialization and accrual quality are used in direct study with financial reporting quality. Lim and Tan (2009) used big 4 and audit tenure while Zandi *et al*. (2019) and Kalker et al. (2012) also used big 4 and audit tenure with financial reporting. Furthermore, Balam *et al*. (2018) and Jorjani *et al*. (2018) also have used big 4 and audit tenure as a moderator but they did it separately. In this study will combine big 4 and audit tenure as a moderator since in the prior studies the result are inconsistencies. Therefore, necessitate the need for further study, where the moderating impact will then strength and the capability to improve financial reporting quality (Jones *et al*., 2018; Jorjani *et al*., 2018). The first part of the framework presents the relationships postulated between board characteristics and financial reporting quality. This shows the dimensions of the board and their direct impact on financial reporting quality. The second model is the interaction association between the moderator, which is audit quality (auditor tenure and Big 4), board characteristics, control variables and financial reporting quality.

The framework premised on the agency theory where an agency relationship occurs where a principal engages another person as an agent to do a service at his behest. Notably, such an arrangement may result in the delegation of accountability by the principal, which necessitates the placement of trust in an agent to act in the principal's best interest (ICAEW, 2005). Thus, some concerns also arise about the trust as well as conflict of interests due to the differing motives of agents and the principals. It is argued that the agent likely pursues objectives that differ from the goals of the owners

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thus creating an agency conflict. Thus, in this study, firm owners (shareholders) represent the principals while the managers are the agents. Due to the divergent interests between the shareholders and the managers, agency problems could arise. While the owners would desire high quality reporting in order to know the state of the firm, the managers could attempt to hide information. This information asymmetry is the fundamental basis for agency conflict. For that reason, agency theory proposes several instruments of monitoring such as board characteristics and the external auditors to mitigate the agency problem and align the interests of the owners/principals and managers/agents (Jensen & Meckling, 1976).

The second theory employed in this research is the stakeholders' theory. This theory goes further than the agency theory of principal and agent in that it recognizes that others exist in organizations whose interests matter other than the shareholders. These additional interests include employees, creditors, government, suppliers, customers and even the host community (Ayuso, Rodriguez, Garcia-Castro, & Arino, 2014). The school of thought premised on the view of John and Senbet (1998) which recognized other interested parties in the affairs of a firm to the position of agency theorists. Further, a recent variant of the stakeholder theory, the enlightened shareholder theory attempts to go beyond the stakeholders versus shareholders dilemma (Jensen, 2010). This new approach recognizes the primacy of meeting shareholders' interests, but it also acknowledges the importance of satisfying stakeholders' interests as well (Jensen, 2010; Mallin, 2010; Tricker & Tricker, 2015). Thus, the stakeholders also desire to obtain high-quality information on the state of affairs of a firm since their interests are adversely affected in the event of any financial statement. This theory advocates for a win-win scenario that recognizes the need for organizations to serve the interests of all

stakeholders through high-quality reporting. Conclusively, this study adopts the stakeholders' theory and it could aid in establishing a linkage that exists between the shareholders, company management, audit committee members, external auditors, government agencies and the public. It is therefore included in this study as a complementary theory (Evans & Weir, 1995).

Past studies have used both board characteristics and audit committee variables in their investigations for example, Husnin, Nawawi & Putch Salin (2016) employed board and audit committee characteristics in a study of Malaysian companies. In addition, Samaha, Khlif, and Hussainey (2015) examined the relationship between the board of directors, audit committee characteristics and voluntary disclosure. Similarly, Zhou *et al*. (2018) investigated the board of director and audit committee characteristics in the relationship with firm performance. Further, Said *et al*. (2009) examined the relationship between corporate social responsibility disclosure, corporate governance and audit committee characteristics in Malaysian public listed companies. In these previous studies, they combined both board and audit committee characteristics in the same study in order to conduct their investigations. In the light of the foregoing, this study is also employing board characteristics, which comprise of the components of the board characteristics and the audit committee in achieving comprehensive insights and in depth understanding of the relationship of the variables.

The moderating variable is audit quality. This is expected to influence the relationship between board characteristics and financial reporting quality. Barron and Kenny (1986) and Mackinnon (2011) asserted the reason for including the moderating variable in research is to enhance the strength of the relationship between the

independent and dependent variables. The justification for using the Big 4 is that there is a high degree of objectivity in their reports, which could enhance financial reporting quality. Secondly, reports have shown that they have a high degree of reliability, accuracy in their result of financial reporting quality (Knechel *et al*., 2010). Cohen, Hoitash, Krishnamoorthy and Wright (2013) opine that Big 4 firms could have the capability of detecting fraud and existing material misstatement and errors in the financial statements. Thus, these Big 4 firms could moderate the relationship between board characteristics and financial reporting quality.

The audit tenure is adopted in this thesis to enhance the independence, objectivity, and transparency of the financial reporting quality. This is in line with the view of Teshima and Shuto (2008) who asserted that audit tenure could likely check the irregularities and correct accounting material errors and fraudulent practices in the financial statements. This is because long-serving auditors could better understand the financial reports of the firms where they serve (Firth *et al.,* 2012).

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The selection of the variables of the study was based on previous empirical literature. The financial reporting quality in Nigeria documented from a prior study to be poor (Uwuigbe & Ajibolade, 2013). In Nigeria, Onuorah and Friday (2016) posit that audit committee size and board independence are negatively associated with financial reporting quality. Bello (2013) also document that board independence, audit committee size, institutional, block, and managerial shareholding are positive and significant in influencing financial reporting quality. Dabor and Dabor (2015) aver a negative relationship between board composition and financial reporting quality

revealed that there is no significant relationship between board size, expertise, and financial reporting quality.

In Malaysia, Haji (2013) found a positive relationship between financial reporting quality and board size. Abidin *et al*. (2009) asserted a positive relationship between board independence and financial reporting quality. Othman *et al*. (2014) aver that there is no relationship between audit committee independence, expertise, meeting, and size with voluntary disclosure. However, Abernathy *et al.* (2014) found the positive relationship between audit committee, expertise, and financial reporting quality.

In the US, Barbu *et al*. (2014) found firm size to be significant with voluntary disclosure. In addition, Samaha *et al*. (2015) document that board size; board composition and audit committee have a significant positive effect on voluntary disclosure while CEO duality has no significant impact on voluntary disclosure. Zhou *et al*. (2018) found that audit committee; board independence negatively associated with firm performance while board size is significant and positive with firm performance. Alrshah (2015) has tested these variables audit committee independence, size, diligence, and expertise. The results above are inconsistent which showed that further studies are still required between board and audit characteristics and financial reporting quality.

The need for companies to ensure high financial reporting quality has been advocated in prior studies such as (Popova *et al*., 2013; Boshnak, 2017; Dou *et al*., 2013). Against this background, there is a need to identify factors that could promote high financial reporting quality in Nigeria. This is especially important in a developing country like

Nigeria where the development of the well-established and enforceable mechanism of protection and policies that address financial reporting quality-related issues seem a challenge.

The purpose of this research is, therefore, to contribute to the body of knowledge on the relationship between board characteristics and financial reporting quality. It is to determine the moderating impact of the Big 4 and audit tenure on financial reporting quality, which underscores the use of the moderators. It is more likely that the quality of auditors would provide a key monitoring function in dealing with agency problem of inadequate reporting in corporate organizations (Uwuigbe & Ajibolade, 2013; Barako & Tower, 2007; Chakroun & Matoussi, 2012; Fodio & Oba; 2012; Mohd Ghazali & Weetman, 2006). The study will further contribute to previous studies by providing evidence concerning the effectiveness of the board of directors in enhancing financial reporting quality.

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4.2 Hypotheses Development

The hypotheses of the study are developed in this section. The agency and stakeholder theories are the theoretical basis for the hypotheses. The importance of high-quality financial reporting in organizations was emphasized in prior studies and the board characteristics are considered as important mechanism for the implementation of good financial reporting (An & Naughton, 2009; Haat *et al*, 2008). Both the agency and the stakeholders' theories impose responsibilities on corporate bodies to ensure good financial reporting (Jensen, 2010; Trainor & Finnegan, 2013). The board is considered as a control mechanism for the stakeholders especially the shareholders while it is assisted by the audit quality in ensuring high-quality financial reporting. Thus, the

audit quality assumes an important role as a mechanism for high-quality financial reporting. This study, therefore, recognizes the roles audit quality as a moderator in promoting high-financial reporting as well as the board characteristics variables in enhancing financial statements. Barron and Kenny (1986) posit that when there are mixed findings between predictive and outcome variables, the introduction of a moderating variable could enhance the relationship. Therefore, audit quality (represented by Big 4 and audit tenure) is introduced as a moderator in this study.

This present study uses four board characteristics and four audit committee characteristics to examine the relationship with financial reporting quality. These eight board characteristics are used to develop twenty-four (24) study hypotheses to ascertain their influence on financial reporting quality. These board characteristics are blocked shareholding, director shareholding, board independence, the board size, audit committee independence, audit committee diligence, audit committee size, and audit committee expertise. Past studies have considered these variables as either dependent, independent, control variables or moderating and mediating variables that are likely to influence the determination of high financial reporting quality (Al-Ghamdi, 2012; Dou *et al*., 2013; Nyor, 2013; Salleh & Bin, 2009; Salaudeen *et al*., 2015). Drawing from relevant theories and past studies, hypotheses development from the above variables are discussed.

4.2.1 Board Characteristics

Board characteristics have focused on identifying the procedures that assist in decision-making regarding the internal governance of companies. The standard and guidelines sharpen the relation among the board of directors, shareholders and manage alongside solving agency conflict in the organization (Beuselinck *et al.,* 2013; Gill,

2008; Mohamad & Mohamad Sori, 2011). Good board characteristics help in ensuring transparent financial reporting quality and accountability of management to the investors (Berndt & Leibfried, 2007; Sloan, 2001; Jo & Harjoto, 2011; Ujunwa, 2012).

4.2.2 Block Shareholding

Dou, Hope, Thomas & Zou (2013) reported that block holders limit managerial freedom in financial reporting to a less degree, which leads to lower quality of financial reporting. Block holders could be the sources of agency problem in the firm by extracting private benefits to the disadvantage of the minority shareholders. Klai & Omri (2011) examine that block holder could significantly reduce financial reporting quality. The study shows that block holder is significantly positive on financial reporting quality using block holder characteristics. Khan *et al*. (2005) and Alex (2009) and Ra shid (2010) asserted that the dispersion of the block holder's ownership is positively related to financial reporting quality. Furthermore, Shin and Seo (2011) report that the presence of pressure-resistant institutional investors leads to higher financial reporting quality.

Cronqvist and Fahlenbreach (2008) examine the effect of block holder in operating, financing, and investing activities and compensation policies of companies and conclude that the financial reporting quality are improved by block holder. Dou *et al.* (2014) investigated block holder heterogeneity and financial reporting quality and found that the block holder is positively significant and affects financial reporting quality. The foregoing informs the basis for the positive direction adopted in this hypothesis. In addition, Dou *et al.* (2014) considered block holders as capable of contributing to the reduction of the agency problems in the principal-agent

relationship. Thus, according to the proposition of agency theory and prior empirical studies, the hypothesis developed as:

H1a: There is a positive relationship between the block shareholding and financial reporting quality.

4.2.3 Director Shareholding

Agency theory indicates that director shareholder should perform some duties in the principal and agent relationship so that shareholders and investors can have an economic value of the firm (Fadzil & Ismail, 2014; Lam & Lee, 2012, Lasfer, 2004; Jensen & Meckling, 1976). Previous studies suggest that director shareholding is the main standpoint of the organization that would influence the financial reporting quality (Bamber *et al*., 2010). The board oversight responsibility is to ensure the quality of information disclosed is in accordance with the standards and requirements of publishing financial reporting quality (Ahmed & Duellman, 2007; Vefas, 2005).

Rubin and Segal (2011) document that board status and director shareholding influences positively, effectively monitored and resulted in higher financial reporting quality. Kantudu and Samaila (2015) examine the board characteristics, independent audit committee, and financial reporting quality and found that board with better network of directors are less likely to adopt reporting practices that reduce financial reporting quality. Al Daoud, Ismail, and Lode (2015) investigated the impact of board of directors, size of the board, duality of CEO, board meetings, the financial expertise of the board, a working audit committee and the industrial sector on the timeliness of financial reporting quality. The finding of the study suggests that director shareholding

is significantly associated with financial reporting quality. Given that agency theory recognized the directors as an important instrument in monitoring the managers of firms, director shareholding is likely to contribute to the reduction of the agency problem. The understanding that these director owners would more likely monitor effectively and to protect their shareholding interests. Accordingly, and in line with the agency theory proposition, the following hypothesis therefore derived:

H1b: There is a positive relationship between director-shareholder and financial reporting quality.

4.2.4 Board Size

Prior researches show the association between board size and mandatory financial statements to be positive (Abidin *et al*., 2009; Uwuigbe & Ajibolde, 2013; Akhtaruddin *et al*., 2009; Chakroun & Matoussi, 2012; Damagun & Chima, 2013; Haji, 2013). However, others also show a non-linear relationship (Zahra *et al.,* 2000) and a negative association (Abdul Rahman & Haneem, 2006; Fodio & Oba, 2012) results. None the less, the board size has a role to play in enhancing high financial reporting and the ability of the board to carry out its function of monitoring evaluating management. The size of the board found to increase the director's ability to monitor managers timely and process information.

Agency theory suggests that a larger size of the board is associated positively with financial reporting quality. This view is buttressed by Peasnell, Pope and Young (2005), Holtz and Neto (2014), Duc and Thuy (2013) and Fathi (2013). They explained that a larger number of directors on the board allow better monitoring of the

management which limits accounting discretionary and improves financial reporting quality. Arising from the foregoing and in line with stakeholder theory and prior studies on the likelihood of the positive impact of board size on financial reporting quality, the following hypothesis developed.

H1c: There is a positive relationship between board size and financial reporting quality.

4.2.5 Board Independence

The financial reporting quality process is enhanced through the outside directors as a means of bridging the perceived gap between the managers and shareholders. Outside directors or non-executive directors are seen as the balancing mechanism, not only in ensuring that the companies cater to the needs of shareholders but also the general public. In addition, the outside directors are likely to be concerned about their image and reputation. The outside director would be more inclined towards satisfying financial reporting quality concerns of the firm as this may enhance their public relations in the society (Uwuigbe & Ajibolade, 2013).

Thus, outside directors can force firms to engage in activities that ensure the correlation between organizational activities and societal values (Jeong & Kim, 2013). Furthermore, the argument for the inclusion of the independent non-executive directors on the board is explained from the stakeholder theory point of view (Jensen, 2010). The theory stipulates that as a fall out of the separation between ownership and control, managers in the event of an opportunity would go after their own benefits at the expense of shareholders (Jensen, 2010). Hence by having the independent non-

executive directors on the board, these directors would assist in checking management's opportunistic behaviour and assist in monitoring the management more effectively (Fama & Jensen, 1983).

Prior literature on board independence and various measures of reports has shown varying results. Herda *et al*. (2013) document a positive relationship between board independence and sustainability reporting. They assert that the monitoring function of independent directors enhances the firm's transparency through increased mandatory financial statements. In addition, Uwuigbe & Egbide (2012) find a positive association between board independence and potential investors. They argued that the non-executive directors seen to make a move towards honouring the obligations of the company and are interested in maintaining the social responsibility of the company as that also boost their public image.

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Bradbury, Mak, and Tan (2006) found no relationship between the independence of the board and financial reporting quality while Mohd Ghazali and Weetman (2006) and Haniffa and Cooke (2002) found no association between board independence and mandatory statements. Contrarily showing a negative association, Haniffa and Cooke (2005) found an inverse association on the insinuation that the outside directors have limited knowledge and experience and show little concern on financial reporting quality issues. In the same vein, Barako and Tower (2007) also found a negative relationship suggesting that the independent directors although create from outside the firm, might not be truly independent. Chalmers, Koh, and Stapledon (2006) in a panel study in Australian firms find an insignificant relationship between the proportion of board independence and financial reporting quality. Reddy, Abidin and You (2015) provide empirical evidence of the insignificant relationship between board

independence and financial reporting quality. Although the stakeholder theory argued that independent directors could serve as a mechanism of control to monitor management and promote high-quality reporting, the mixed findings provide the basis for this hypothesis. Based on the mixed result from past studies, the above arguments lead to the presentation of the following hypothesis.

H1d: There is a positive relationship between board independence and financial reporting quality.

4.2.6 Independence of Audit Committee

Audit committee independence primarily demanded by external stakeholders in order to decrease the cost of capital (Watts, 2003; Ramsay, 2001; Adhikary & Mitra, 2016). Audit committee independence aligns with financial reporting quality because of reputational effect, regulatory or litigation threat SEC and professional scrutiny from the Public Companies Accounting Oversight Board (PCAOB) in US. Additionally, the ability of the audit committee independence to practice financial reporting quality is positively related to their economic independence.

Madawaki & Amran (2013) examine audit committee independence and its role in the extent of financial reporting quality in Nigerian firms. The finding showed that the formation of audit committee independence was positively associated with improved financial reporting quality. In addition, it was revealed that the presence of an independent chairman of the audit committee and an expert was directly linked with improved financial reporting quality.

Elijah and Ayemere (2015) explore the effect of audit committee attributes on financial reporting quality. The findings showed that audit committee features as audit committee independence, audit committee expertise, and audit committee diligence showed a negative and significant relationship with financial reporting quality. The inefficiency of the audit committee and lack of prompt meetings of th board could cause the negative relationship.

Kantudu and Samaila (2015) examine board characteristics, independent audit committee and financial reporting quality of oil marketing firms in Nigerian. The finding showed that directors maintaining independence, managerial ownership, and audit committee independence found to have a positive and significant effect in influencing financial reporting quality of quoted oil-marketing firms in Nigeria. While the agency theory expects independent audit committee members to enhance financial reporting quality, the mixed findings from previous provide the following hypothesis:

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H1e: There is a positive relationship between board independence and financial reporting quality.

4.2.7 Diligence of Audit Committee

Diligence is a vital attribute that contributes to the effectiveness of audit committee thereby leading to enhanced financial reporting quality of a company. Yusof (2009) investigates the role of audit committee towards credible financial reporting quality. The findings show that the audit committee with a higher proportion of experts knowledgeable in finance and audit committee that meets more frequently are highly relevant for ensuring financial reporting quality. However, Elijah and Ayemere (2015)

examine audit committee attributes such as quality, audit committee expertise, size, independence, and diligence. The result shows that financial reporting quality has a negative and significant relationship with audit committee diligence. Nkundabanyanga *et al*. (2013) asserted that the organizational performance is the activities of the board as captured by the frequency of meeting and this could positively influence financial reporting quality.

Rochmah & Nazli (2012) examine the relationship existing between the audit committee effectiveness and timeliness of reporting quality and they found that timeliness is positively related to audit committee effectiveness and this could, in turn, reduce financial reporting lead-time. The stakeholder theory proposed that when members have more time to dedicate to discussions during meetings, audit committee could more effectively enhance the quality of financial reports. Therefore, it expected that diligence of the audit committee would positively affect financial reporting quality and the relationship hypothesized as follows.

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H1f: There is a positive relationship between the diligence of the audit committee and financial reporting quality.

4.2.8 Size of Audit Committee

The size of the audit committee is one of the vital determinants of its effectiveness and many researchers recognized this element as positively connected to higher reports. Ziaee (2014) explored the link between audit committee size and financial reporting quality of companies. The result shows a positive relationship between financial reporting quality and audit committee size. Kaklar *et al.* (2012) investigated the audit

quality and financial reporting quality and found a weak and negative relationship between audit size and financial reporting quality.

Uwuigbe & Ajibolade (2013) examined the effects of corporate governance mechanism on corporate social environmental disclosure among firms listed on the Nigerian stock exchange. The findings reveal a positive significant relationship between audit committee size and corporate social environmental disclosure. Farouk and Hassan (2014) examine the impact of audit committee size on financial reporting quality of quoted firms in Nigeria. The finding showed that the audit committee size has a significant and positive impact on the financial reporting statement of quoted cement firms in Nigeria. There are also study that show negative relationship with financial reporting quality (Abidin et al., 2009). While some argue under the agency theory for a small size committee, others also support the view that more members could better checkmate the executive and ensuring better reporting in firms. Thus, the evidence suggests that the size of the audit committee would improve financial reporting quality. The following hypothesis.

H1g: There is a positive relationship between the size of the audit committee and financial reporting quality.

4.2.9 Financial Expertise of Audit Committee

Expertise is an important attribute in an audit committee that contributes to the effectiveness of members. Cohen, Hoitash, Krishnamoorthy and Wright (2013) examine the role of audit committee chair financial expertise and status in enhancing audit committee effectiveness and achieving a high-quality financial process. The

finding shows the positive effect of audit committee financial expertise. Elijah & Ayemere (2015) examine audit committee attributes and financial reporting quality. The finding shows that audit committee characteristics have a constraining effect on financial reporting quality. Audit committee financial expertise, audit committee size, audit committee independence, and diligence show a positive significant relationship with financial reporting quality. More experts on the audit committee are recognized by the agency theory as a vital mechanism for the enhancement of a firm's financial report. This is because of their ability to ensure better scrutiny of the financial reports. Fulfilling the proposition of the stakeholder theory and past empirical studies, the hypothesis developed for the proposed study is as follows:

H1h: There is a positive relationship between the financial expertise of the audit committee and financial reporting quality.

4.3 Moderating Variables

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4.3.1 Auditors Quality as proxy by Big 4 as Moderating Variable

In the United States, it is a common practice for the Big 4 auditing firms to protect themselves and provide high-quality financial reporting services in order to avoid legal scuffles (Guénin-Paracini & Gendron, 2010; Aghaei *et al.,* 2011). In addition, the proponents of the agency theory argue that effective financial reporting will go a long way to bring down the information asymmetry gap, which exists between management and shareholders. This would create investors' confidence, boost the prices of the company's stock, and create an environment where the firms can easily raise capital from the market and boost their growth potentials (Yang, 2012; Jensen & Meckling, 1976). Following previous studies (Datar, Feltham & Hughes, 1991; Slovin, Sushka

& Hudson, 1990; Titman & Trueman, 1986; Yaşar, 2013), the attestation of a firm's annual report by a Big 4 apparently could lead to a visible advantage for the organization in the form of a reduced cost of capital. This means that the potential investors view the presence of the Big 4 as likely to contribute to a high-quality audit. The enhanced quality of financial reporting, when compared with those attested by non-Big 4 audit firms are expected to differ considerably (Fagbemi *et al*., 2013). The greater the perception of the quality of the audit, the greater will be the confidence posed on the auditee's financial statements by the stakeholders (Dopuch & Simunic, 1982). Thus, Chaney and Philipich (2002) revealed that the challenges and issues experienced by Enron during (2001–2002) and the consequent fallout on the auditor (Arthur Andersen's) led to a sharp drop in the share price of Andersen's audit clients. The Houston office of Andersen was the worst hit considering it directly handled the Enron case. The Big 4 are expected to provide high-quality audits, avoid costly litigation and contribute to a drop in the information asymmetry between the management and shareholders (Khurana & Rahman 2004; Raman & Wilson, 1994; Yasar, 2013). Thus, in lines with the agency and stakeholder theories, the following hypotheses are developed:

H2a: Big 4 moderate the relationship between block holding and financial reporting quality.

H2b: Big 4 moderate the relationship between director shareholding and financial reporting quality.

H2c: Big 4 moderate the relationship between board size and financial reporting quality.

H2d: Big 4 moderate the relationship between board independence and financial reporting quality.

H2e: Big 4 moderate the relationship between the independence of the audit committee and financial reporting quality.

H2f: Big 4 moderate the relationship between the diligence of the audit committee and financial reporting quality.

H2g: Big 4 moderate the relationship between the size of the audit committee and financial reporting quality.

H2h: Big 4 moderate the relationship between the expertise of the audit committee and financial reporting quality.

4.3.2 Auditors Quality as Proxy by Auditor Tenure as Moderating Variable

Empirical literature considered the tenure of not less than three (3) years while at other times they are considered as more than three (3) and more years (Boone *et al*., 2008; Tasios & Bekiaris, 2012). Kim and Yang (2014) and Asthana *et al*. (2010) examined whether audit tenure rule in Korea is effective in deterring managers from making income-increasing earnings management. The results show that the absolute value of discretionary accruals decreases when the tenure increases. Firth *et al*. (2012) and Brazel and Agoglia (2007) using auditors' tenure to issue a modified audit opinion as a proxy for audit quality document a positive effect of mandatory audit partner rotation on audit quality in a region with a weak legal institution. Daniels and Booker (2011), Caramanis and Lennox (2008) and Ghosh and Moon. (2005) examined the effects of audit firm rotation on perceived auditor independence, audit quality and indicate that officers do perceive an increase in independence when the company follows an audit firm rotation policy.

Fama and Jensen (1983), Brazel (2008) and Carcello and Neal (2003) consider the relationship between auditor tenure and financial reporting quality. They consider that audit tenure could lead to better monitoring of behavioural opportunistic of managers and lead to a positive effect on financial reporting quality. The audit tenure has the ability to checkmate accounting irregularities (Chi & Huangs, 2005; Caramanis & Spathis, 2006)) and to strengthen the relationship between the financial reporting qualities and board characteristics. However, the findings above are with mixed results. The stakeholder theory hypothesis recognized auditor independence as capable of enhancing financial reporting quality. This is connected with the view that if auditors serve longer in a firm, they could better understand the intricacies of a firm's financial reporting. Thus, long-serving auditors could more likely contribute to high-quality financial reports. They are also likely to aid stakeholders when their services contribute to improving financial reports to guide investors, creditors, and others in making decisions. Based on the foregoing, the following hypotheses are proffered:

H3a: Auditor tenure moderates the relationship between block holding and financial reporting quality.

H3b: Auditor tenure moderates the relationship between director shareholding and financial reporting quality.

H3c: Auditor tenure moderates the relationship between board size and financial reporting quality.

H3d: Auditor tenure moderates the relationship between board independence and financial reporting quality.

H3e: Auditor tenure moderates the relationship between independence of the audit committee and financial reporting quality.

H3f: Auditor tenure moderates the relationship between the diligence of the audit committee and financial reporting quality.

H3g: Auditor tenure moderates the relationship between the size of the audit committee and financial reporting quality.

H3h: Auditor tenure moderates the relationship between the expertise of the audit committee and financial reporting quality.

4.4 Operational Definition and Measurement of Variables

A number of board characteristics variables are discussed in the hypotheses development such as block shareholding, director shareholding, the board size, board independence, audit committee independence, audit committee size, audit committee diligence, audit committee expertise, audit quality, and financial reporting quality. In this study, board characteristics are highlighted as the significant factors that influence financial reporting quality. The board characteristics and their definitions in this study are as follows:

4.4.1 Block Shareholding

In this study, block holder is the total shareholding by shareholders that own minimum shares of 5% in the company. They are described as concentrated shareholders who hold the bulk of a firm's shares (Ahmad, Ishak & Abd, 2002). They wield considerable power and could influence a firm's decisions (Dwivedi & Jain, 2005; Farrer & Ramsay, 2001; Masulis *et al*., 2012).

4.4.2 Director Shareholding

Director shareholder is measured as the proportion of directors' shareholding to the total number of the company's shares. The primary duty of the directors is the monitoring of managerial actions to protect the interest of the shareholders (Teshima & Shuto, 2008; Rose *et al*., 2013; Shuto & Takada, 2010; Dalton & Dalton 2005; Forbes & Milliken, 1999). The higher the percentage the more likely the directors would show concerns on the reporting quality in order to protect their investment.

4.4.3 Board Size

The size of the board in the course of this study is viewed as the total number of directors on the board, which includes the chairman, executive directors, non-executive directors, and independent directors (Uwuigbe and Ajibolade, 2013; Abidin *et al.,* 2009; Akhtaruddin *et al*., 2009).

4.4.4 Board Independence

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The activities of non-executive directors are considered an important mechanism in ensuring corporate accountability (Armstrong *et al*., 2012 & 2014; Rodriguez-Fernandez et al, 2014). This study measured board independence as the percentage of non-executive directors to total directors on the board (Beasley, 1996; Gallegos, 2004; Kota & Tomar, 2010; Weir & Laing, 2001; Habbash *et al*., 2010).

4.4.5 Independence of Audit Committee

Audit committee independence should maintain the monitoring role delegated by the board with the aim to provide reliable information. This study measured board

independence as the percentage of non-executive directors to total directors in the audit committee (Beasley, 1996; Klein, 2002; Baxter & Cotter, 2009; Weir & Laing, 2001).

4.4.6 Diligence of Audit Committee

The number of meetings measures the diligence of the audit committee or the frequency of meetings held by the audit committee (Rickling, 2014). The frequency of meetings provides a proper monitoring of financial environment and reduces financial reporting problems as members devote more attention to scrutinize financial reports (Li, & Song, 2013, 2008; Rizzotti & Greco, 2013; Raghunandan & Rama, 2007; Rizzotti & Greco, 2013).

4.4.7 Audit Committee Size.

According to prior studies, the size of audit committee refers to the total number of board of directors in the audit committee. Ahmed and Duellman (2007), Lam and Lee (2012) and Krishnan and Visvanathan (2008) used a similar measurement for audit committee size. Similarly, companies listed on the Nigerian Stock Exchange are required under Section 359 sub-sections (3) and (4) of CAMA (1990) to establish an audit committee comprising of six (6). This study utilizes the total number of board of directors in the audit committee members to measure the size of the audit committee (Ahmed & Duellman, 2007).

4.4.8 Expertise of Audit Committee

This study measured audit committee expertise as the number of members of the audit committee with financial expertise. These are members with knowledge in the field of accounting and auditing. The financial expert must be knowledgeable and well

experienced to fulfil their responsibilities effectively with the aim to enhance financial reporting quality (Badolato *et al.,* 2014; Bedard *et al.*, 2004; Saleh, Iskandar & Rahaman, 2007).

4.4.9 Big 4

The Big 4 are reputable firms regarded as the four leading auditing firms. In this study, it is a dichotomous variable whereby firms that have been audited by Big 4 are measured with a score of one (1), while firms not audited by Big 4 are measured with a score of zero (0). Big 4 audit firms have the capacity to acquire knowledge and resources than Non-Big 4 firm and such Big 4 audit firms tend to ensure they stick to a high-level standard to maintain their highly built reputational capital than Non-Big 4 audit firms (Francis & Krishnan, 1997; Ritchie & Khorwatt, 2007; Guo, 2016; Caramanis & Lennox, 2008).

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4.4.10 Audit Tenure

Audit tenure will enhance auditor independence, objectivity and professional scepticism. The audit tenure is considered as serving in a firm's audit for more than 3 years (Daniels & Booker, 2011; Wilson & Grimlund, 1990; Kabiru & Rufai, 2014). It is measured as the number of consecutive years over a 3-year period that the audit firms have audited the clients' financial statements (Barbadillo & Aduilar, 2008; Johnson *et al*., 2002; Boone *et al*., 2008). This is considered a long tenure.

4.4.11 Control Variable Firm Size

It is of note that there is a general acceptance of the natural logarithm of total assets as a measurement of firm size (Amran & Che-Ahmad, 2010; Che-Ahmad, Ishak & Abd

Manaf, 2003; Wan Hussin, Che-Adam, Lode & Kamardin, 2005). Following the reoccurrence in the literature on financial reporting, the natural log of total assets is considered as an appropriate measure of firm size for this study.

4.4.12 Profitability

Profitability in the context of this study is defined as the return on equity. Following Che-Ahmad *et al*. (2003) this study measure profitability using the return on equity ratio calculated as net profit after tax divided by total equity.

Table 4.1 Summary of Variables Measurement

Variables	**Measurement**
Dependent Variable	
Financial Reporting Quality	Disclosure index (Abdul Rahman 2001; Boshnak, 2017, Popova *et al*., 2013) [refer to section 4.5]
Independent Variable	
Block Shareholder	The total shareholding by shareholders that own minimum shares of 5% in the company (Dwiivedi & Jain, 2005, Farrer & Ramasy, 1998, Masulis et al., 2012)
Director Shareholder	The proportion of directors' shareholding to the total number of company shares (Teshima & Shuto, 2008; Shuto & Takada, 2010).
Board Size	Total number of directors on the board (Ajibola & Uwalomwa, 2013; Abidin *et al*., 2009; Akhtariddin et al., 2009)
Board Independence	Percentage of non-executive directors to the total directors (Beasley, 1996; Klein, 2002; Kota & Tomar, 2010; Weir & Laing, 2001).
Independence of audit committee	Percentage of non-executive directors to the total directors in the audit committee (Beasley, 1996; Klein, 2002; Kota & Tomar, 2010; Weir & Laing, 2001).

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Variables	Measurement
Diligence of audit committee	Numbers of meetings held by an audit committee during the financial year (Li et al., 2012; 2008; Raghunandan & Rama, 2007).
Size of the audit committee	Total numbers of board of directors in the audit committee members (Ahmed & Duellman, 2007; Lam & Lee, 2008; Visvaanathan, 2008).
Expertise of audit committee	The numbers of audit committee board of directors with financial expertise (Bedard *et al.,* 2004; Saleh *et al.,* 2007).
Big 4	The Big 4 audited firms are measured with a score of one (1), while firms not audited by Big 4 are measured with a score of zero (0) (Francis, 2004; Caramanis & Lennox, 2008).
Audit Tenure	It is measured as the numbe r of consecutive years the audit firm has audited the client's financial statement (Johnson *et al.,* 2002; Boone *et al*., 2008) over 3 years.
Firm size	Natural logarithm to the total asset (Amran & Che-Ahmed, 2010; Ishaki & Abd-Mamaf, 2003; Wan Hussin, Che-Adam, Lode & Kamardin, 2005).
ROE	Profit after tax divided by equity (Che-Ahmed *et al*., 2008).

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4.5 Measurement of Financial Reporting Quality Index

Financial reporting quality is an important requirement for attracting investment as investors make decisions and allocate their resources based on financial reports (Healey *et al.,* 2001; Yusoff *et al.,* 2006; Mohammed, Mohd, Sanusi & Harjito, 2016). However, the definition for financial reporting quality is still clear and this explains its unobservable measures (Pomeroy & Douvere, 2008). Previous studies have applied a number of proxies, such as earnings management measured by abnormal accruals by Klein (2002) and Al-Ghamdi (2012), financial restatements (Abbott, Parker, & Peters,

2004), fraudulent financial reporting (Hasnan, Rahman & Mahenthiran, 2012), low quality financial reporting arising from the regulator's enforcement actions (Wan-Hussin & Abdullah, 2009) and earnings forecasts accuracy (Ahrnad Zaluki & Wan-Hussin, 2010).

Recently, researchers have shown an increased interest in studying the association between board characteristics and three areas within financial reporting quality (Al-Shetwi, Ramadili, Chowdury & Sori, 2011; Ghafian & O'Sullivan, 2013); financial fraud or restatements, analysis on earnings manipulation and the company's level of disclosure (Palmrose, Richardson & Scholz, 2004). The first area, i.e., financial fraud or restatements, already indicates the ineffectiveness of the audit committee in fulfilling its oversight role (Gharfan & O'Sullivan, 2013; Yusof, 2009). The incidences of financial fraud or restatements affect the investors' investment decisions and can turn out to be costly mistakes. Therefore, the incidences have reputational consequences and litigation risks to the board of directors. The second area in financial reporting quality is an analysis of the company earning management practices (Roodposhti & Chashmi, 2011). Earnings management is an emerging issue in financial reporting quality as it may mislead stakeholders on the underlying economic performance of the company or influence contractual outcomes that depend on the reported financial results and their findings documents that are used by the controlling shareholders or key management for financial gains (AlAzeez, Sukoharsono & Andayani, 2019; Teshima & Shuto, 2008).

The application of earnings management by the management of a company may result in financial gain to shareholders (Liu & Lu, 2007; Roodposhti & Chashmi, 2011) or costly financial implications (Ali, Salleh & Hassan, 2008). There are two methods of

earnings management practiced by the management (Jiang, 2008). They are either manipulation of financial information without violating the Generally Accepted Accounting Principles GAAP (Abdul Rahman & Haneem, 2006; Yu, 2008) or by changing the way the company manages its business operations, such as by cutting back on advertising campaigns, selling non-core assets, deferring maintenance programs and cutting back on staff development programs (Peasnell *et al.*, 2005). Finally, the third important area, which is reflected in this study, is the financial reporting quality is the company's disclosure index (Góis, 2009; Boshnak, 2017).This current study would employed the disclosure index. Empirical studies have indicated that board characteristics, such as financial expertise and diligence, have a positive impact on the level of the company's disclosure index and transparency (Boshank, 2017; Popova *et al.*, 2013).

In summary, many studies have indicated that audit committee independence and financial expertise are positively associated with financial reporting quality (Bedard & Gendron, 2010). However, far too little attention given to the association between other attributes of board characteristics and financial reporting quality (Pomeroy & Douvere, 2008). There has been inconsistency from the previous study. Therefore, the present study intends to investigate whether there is an association between board characteristics and financial reporting quality. To determine the essence of financial reporting quality, according to Abdil Rahman (2001) the study uses a disclosure index as a proxy. The index is deemed fit for Nigeria context because all the items are all applicable to Nigerian code of accounting standards such as NSE, SAS and IFRS.

The proposed study adopted the checklist used by Abdul Rahman (2001). The financial reporting quality disclosure index is to be appropriate as a fall out of the available data

in the Nigerian case and the plausible reasons attributed to the following. The dependent and independent variables are continuous. The study variables are the standard common variable that is used in prior research and all have their foundations built on agency theory (Adelopo, 2011; Al-Tuwaijri *et al*, 2004). The thirty-two (32) items that are covered in previous research studies (including research on the financial statement of mandatory items) are relevant in a developing country like Nigeria.

The 32 items in the financial reporting quality disclosure index are statutorily required for financial reports under Nigerian (CAMA) 2004. The 32-item in the annual report is desirable in terms of Nigerian Statement of Accounting Standard (SAS) and the International Financial Reporting Standard (IFRS) as long as it is applicable in the country the regulation of the (NSE) Nigerian Stock Exchange or any other rules applicable in the country during the period 2011-2015. The 32 items are deemed to be disclosed by all companies irrespective of the type of industries they are engaged. The items were adopted a hundred percent (100%) by other researchers (Cooke, 1987; Firth, 1980; Wallace, 1980). The purpose of which is to measure the extent, content, and relevance of items of information in corporate reports. The purpose of developing the scoring items is not to focus on any particular group but rather on all users of corporate reports.

A number of studies on mandatory and financial reporting quality have relied on content analysis as a measure of the disclosure (Boshnak, 2017; Popova *et al.*, 2013; Abdul Rahman 2001; Hasan, 2015). Zeghal and Ahmed (1990) assert that in order for the content analysis to be used a number of conditions need to be put in place. Their study argues that the classification must be clearly defined in such a way that any

reference made to it could identify without hitch, which of the classes an item falls under. Secondly, the entire classification must follow a logical scientific pattern in a way that the subjective judgment bias reduced to the barest minimum. In addition, in line with studies by Zeghal and Ahmed (1990), only one individual knowledgeable with content analysis assigned the responsibility of identifying and coding the items. The researcher is knowledgeable with the coding of the items.

Financial reporting quality was operationalized as the variety of financial statement relating to the setting in the annual report of the companies (Abdul Rahman 2001; Popova *et al.,* 2013) the manner in which the particular item is disclosed in the annual reports (Haji, 2013). Prior studies have highlighted the use of quantitative measures for financial reporting quality (Elijido-Ten, 2009; Haji, 2013; Smith, Yahya & Amiruddin, 2007), as it shows the actual commitment made towards sustainability of the financial reporting information. Prior studies like Hanifa and Cooke (2005), Alrazi *et al*. (2009), Elijido-Ten (2009), and Che-Ahmad and Osazuwa (2015) used voluntary disclosure index and a number of sentences as a measurement for environmental disclosure in studying environmental accounting. This current study is focusing on financial reporting quality and thus, using mandatory disclosure index as a measurement is appropriate (Popova *et al*, 2013; Boshnak, 2017). These studies also employed mandatory disclosure index as Abdul Rahman, 2001.

In line with Haji (2013) and Smith *et al.* (2007), the quality of financial statement could be measured with the aid of content analysis using a detailed scoring scheme derived from the checklist used by (Abdul Rahman, 2001; Krippendorf, 2018). A particular company is coded as zero (0) if there was no information relating to a given

item, one (1) is assigned if the information disclosed. After the individual item quantified, the total score for each firm is then computed.

4.6 Research Design

The quantitative research design is applied in the course of this work to determine the relationship between board characteristics and financial reporting quality (Chekili & Ouertani, 2014). The framework also incorporated the moderating effects of audit quality on the link between board characteristics and financial reporting quality. Data used in the study was obtained from the annual reports of the sampled non-financial companies. The Stata version 14.0 statistical packages was used to analyse the data. The research categorizes into descriptive and causal research. The descriptive aspect would describe the features of the variables, while the causal relationship is conducted to determine the causal effect of the relationship between variables (Hair, Black, Babin & Anderson, 2014).

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4.7 Sample

The sample of the study is non-financial listed companies on the main market of the NSE with the frame from 2011 to 2015. The first tier market are for well-established large-scale enterprise that has the minimum capital issued in this market one (1) million naira. These companies quoted there are assumed large companies and the biggest in terms of size, and studies have shown that financial reporting quality is linked to size (Galani *et al*., 2011; Gray, Kouhy, & Lavers, 1995). Further, large firms exposed to greater stakeholder pressure (Barbu *et al*., 2014). They are, therefore, expected that larger quoted firm discloses more detailed information than smaller unquoted companies and companies in the second-tier market, that fail to meet the

listing requirements of the mainstream of the exchange. In addition, most of the annual reports for companies in the second tier or alternate securities market were not publicly available. The reasons why the first-tier companies are not having annual reports information, the reports are not available in the library of NSE in Nigeria and not assessable. The Nigerian Stock Exchange is segmented into 10 (ten) sectors which includes Agriculture, Conglomerates, Construction/Real Estate, Consumer goods, HealthCare, ICT (Information and Communication Technology), Industrial Goods, Natural Resources, Oil and Gas and Services.

In order to determine the sample size, the purposive sampling technique used. The technique is appropriate based on researcher judgment. Therefore, the summarize criteria put in place to choose the sample are as follows. The company must have been non-financial listed in the NSE earlier before 2011 and must remain active in the exchange as at the year 2015. The company must not be a bank, investment company, financial brokers. The financial year of the company must end on December 31, 2015. The stock of the company traded at least once during the year as of December 31, 2015. Financial information or the corporate annual reports must be accessible or available. Some listed firms were excluded base on the fact that some firms' usage of financial advantages substantially differs from the others, and then finally firms whose data cannot be trace for the periods under study were not included. The period 2011-2015 was chosen because it was the year Nigeria implemented the 2011 corporate governance code. It was also chosen because of availability of data for the period and was very significant. Two firms delisted during the period of study were excluded. Therefore, non-financial listed firms were finally selected for use in this study with a sample of 457 observations and the study employed an unbalanced panel data set.

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4.8 Data Collection Procedure

The study used a secondary source of data: Annual data spanning the period 2011-2015 drawn from the financial statements of the sampled firms from the Nigerian stock exchange fact book. The selection process was that all the non-financial firms such as banks brokers and insurance companies were excluded due to the difference in the regulatory framework and accounting policies (Bradbury *et al.,* 2006; Tarling, 2009). In addition, the two firms delisted during the period of the study were excluded. All non-financial firms that are not assessable with their annual reports' information excluded.

This study adopts panel data over longitudinal and cross-sectional because it combines both characteristics of longitudinal and cross-sectional (Henderson. & Kaplan, 2000). The cross-sectional study compares different population group at a single point in time while longitudinal study conducts several observations of the same firm over a period sometimes lasting many years (Givoly & Hayn, 2000). The utilization of panel data has several advantages over cross-sectional and time-series data. Specifically, panel data allows for the estimation of consistent parameters while controlling for unobservable cross-sectional heterogeneity, thereby preventing biased results (Ahn *et al.,* 2013). In addition, the use of panel data provides more information from the data, less problem of collinearity among the variables, more variability, more degree of freedom and heightened efficiency (Baltagi, 2005; Rustam, Rashid, & Zaman, 2013). Furthermore, it provides a more efficient measure of characteristics observed in cross-sectional or time series analysis (Baltagi, 2005).

The study utilized the company's annual report as its instrument of data collection because it is the audited and verifiable source of information. The annual reports are widely accepted by a variety of users (Abdul Rahman, 2001; Ahn *et al*., 2013; Penrose, 2008) and generally accepted for reporting financial reporting quality performance to the public (Harte & Owen, 1991). Within the annual report, data is extracted from the chairman statement, director's profile, director's report, CEO report, statement of director's shareholdings; shareholder's statistics, financial statements, and notes to the accounts were scrutinized. Data on board characteristics were extracted from the board's profile; the board mechanism extracted from the director's profile, shareholding statistics and statement of corporate governance. Further, information on financial reporting quality was extracted from the director's report, board characteristics report and report on the financial statement (Ranasinghe *et al*, 2015; Rajgopal, Shevlin & Zamora, 2006; Rajgopal & Venkatachalam, 2008). Lastly, data for the moderating variables were extracted from financial statements and NSE fact book. The process of manual data collection involved registering the data for each company on a data collection form and then entering it into the computer database.

4.9 Unit of Analysis

The unit of analysis refers to the level of aggregation of the data collected. The unit of analysis in this study is the organization. These organizations deemed the most suitable respondent for this research because they are the main users of audit tools and processes and serve as the major decision-makers in firms and the auditing firms (Sekaran & Bougie, 2010).

4.9.1 Research Model

The modelling of the impact of board characteristics, audit quality, and financial reporting quality was based on the agency theory framework as adopted in the work of (Abdul Rahman, 2001; Haniffa & Cooke, 2005; Khan *et al*., 2013). The model of the study based on the previous empirical studies on the determinants and willingness of firms to address the financial reporting quality issues (Rahman *et al*., 2010; Rahman & Haniffa, 2005). Following the above models, the model for this study followed the hierarchical regression pattern. Hierarchical regression modelling shows the order in which the variables entered. F-tests used to compute the added variable or set of variable's significance to the explanation reflected in the R- square (Kim, Al-Shammari, Kim & Lee, 2009). The first model board characteristics and the control variables were regressed against the dependent variable, and the moderating effect of audit tenure and Big 4 in interaction with the board characteristic regressed against the dependent variable. Hierarchical multiple regression also involved a series of regression for each moderating effect in the link between the independent and dependent variables (Kim *et al.,* 2009; McClelland, Barker, & Oh, 2012; Walters, Kroll, & Wright, 2007).

Baron and Kenny (1986) opine when inconsistencies exist between two variables, then a moderator can be introduced. Big 4 and audit tenure were introduced as the moderator because this variable is expected to enhance the financial reporting quality (Haji, 2013; Chakroun & Matousi, 2012). They suggested influencing the relationship between board characteristics and financial reporting quality. Consequently, to achieve this objective, multiple hierarchical regression analysis conducted to test the

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moderators. Following Baron and Kenny (1986) and Kim *et al*. (2009), the data was regressed in two steps.

In the first model, the independent variables were introduced, that is, board characteristics and control variables regressed against the dependent variable. This is to investigate the objective one of the study. This model presented in Equation 1 as follows;

Model 1

$$FRQ_{it} = \beta_0 + \beta_1 BLOCKSHARE_{it} + \beta_2 DIRESHARE_{it} + \beta_3 BODSIZE_{it} + \beta_4 BODIND_{it} + \beta_5 ACIND_{it} + \beta_6 ACDIL_{it} + \beta_7 ACSIZE_{it} + \beta_8 ACEXP_{it} + \beta_9 FSIZE_{it} + \beta_{10} PROF_{it} + \varepsilon_{it} \quad \ldots\ldots(1)$$

The second model included the moderating effect of audit tenure and Big 4 in interaction with the board characteristics and financial statement quality. This is regressed against the dependent variable to determine the moderating impact. These are to investigate objectives two and three of the study. This model presented in Equation 2 as follows;

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Model 2

$$FRQ_{it} = \beta_0 + \beta_1 BLOCKSHARE_{it} + \beta_2 DIRESHARE_{it} + \beta_3 BODSIZE_{it} + \beta_4 BODIND_{it} + \beta_5 ACIND_{it} + \beta_6 ACDIL_{it} + \beta_7 ACSIZE_{it} + \beta_8 ACEXP_{it} + \beta_9 FSIZE_{it} + \beta_{10} PROF_{it} + \beta_{11} BIG4_{it} + \beta_{12} AUDTENU_{it} + (\beta_{13} BLOCKSHARE_{it} * BIG4_{it}) + (\beta_{14} DIRESHARE_{it} * BIG4_{it}) + (\beta_{15} BODSIZE_{it} * BIG4_{it}) + (\beta_{16} BODIND_{it} * BIG4_{it}) + (\beta_{17} ACIND_{it} * BIG4_{it}) + (\beta_{18} ACDIL_{it} * BIG4_{it}) + (\beta_{19} ACSIZE_{it} * BIG4_{it}) + (\beta_{20} ACEXP_{it} * BIG4_{it}) + (\beta_{21} FSIZE_{it} * BIG4_{it}) + (\beta_{22} PROF_{it} * BIG4_{it}) + (\beta_{23} BLOCKSHARE_{it} * AUDTENU_{it}) + (\beta_{24} DIRESHARE_{it} * AUDTENU_{it}) + (\beta_{25} BODSIZE_{it} * AUDTENU_{it}) + (\beta_{26} BODIND_{it} * AUDTENU_{it}) + (\beta_{27} ACIND_{it} * AUDTENU_{it}) + (\beta_{28} ACDIL_{it} * AUDTENU_{it}) + (\beta_{29} ACSIZE_{it} * AUDTENU_{it}) + (\beta_{30} ACEXP_{it} * AUDTENUit) + (\beta_{31} FSIZE_{it} * AUDTENU_{it}) + (\beta_{32} PROF_{it} * AUDTENU_{it}) + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.(2)$$

Where

FRQ = Financial reporting quality
BLOCKSHARE = Block shareholder
DIRESHARE = Directors' shareholding
BODSIZE = Board size
BODIND = Board independence
ACSIZE = Audit committee size
ACIND = Audit committee independence
ACEXP = Audit committee expertise
ACDIL = Audit committee diligence
BIG 4 = Big 4
AUDTENU = Auditor Tenure
FSIZE = Firm Size
PROF = Profitability
ε = Error term

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4.9.2 Techniques of Data Analysis

The statistical analysis of data for this study was conducted using the Stata 14.0 statistical package. Consequently, the data analysed using descriptive, correlation and multiple regressions. The estimation results evaluated based on individual statistical significance test (t-test) and overall statistical significance test (F-test). The goodness of fit of the model tested using the coefficient of determination (R-squared).

4.9.3 Descriptive Analysis

The descriptive analysis provided to examine the nature of the data, as the statistical tools of mean, minimum, maximum, standard deviation and variance used to measure the central tendency and describe the variables. Correlations and multiple regressions used to carry out inferential statistics. Specifically, the hierarchical regressions used to determine the relationship between the controls, independent, moderating and dependent variables as well as the strength of the relationship (McClelland *et al.,* 2012; Walters *et al*., 2007).

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4.9.4 Correlation of Analysis

Pearson product-moment correlation used to determine the correlation between the dependent and independent variables and to check for multi-co-linearity among the independent variables. The variables tested with the use of correlation involve board characteristics and financial reporting quality. The higher the correlation coefficient, regardless of the sign of the coefficient, the stronger the linear relationship between the two variables. A negative correlation means that as the values of one of the variables increases, the values of the other variable tend to decline. A positive correlation means that as the values of one of the variables increases, the values of the

other variable tend to increase also. A small or zero (0) correlation means that the two variables do not have a linear relationship.

4.9.5 Multivariate Analysis

The multivariate analysis was used to analyse the relationship between two or more variables. This technique is more sophisticated and is able of providing such relationships. This study uses the confidence level at 1% and 5% to test the significance of variables. If the value is very close to one (1) that means the relationship is very significant. According to Hair *et al*. (2014), regression analysis is a proper technique to explore the link between the board characteristics as independent variables and financial reporting quality as the dependent variable. In addition, multiple regression analysis procedure weights each independent variable to achieve high prediction from a set of independent variables, which give the relative contribution of independent variables to the overall predictions. In addition, it provides the correlation coefficient between the independent variables. Therefore, results show an individual contribution of each variable in providing the overall prediction as well as to interpret the association between each independent variable and the dependent variable (Hair *et al*., 2014).

All of the data undergo multi-collinearity, homoscedasticity, independent error and normally distributed errors to ensure that the data is consistent with the regression assumptions. Multi-co-linearity occurs if there is a high level of correlation among the independent variables (Field, 2001). This study employed two tests to check the multi-co-linearity. The first way is the by correlation matrix, the multi-co-linearity problem occurs if the correlation among independent variables exceeds 0.9 (Hair *et al*., 2014;

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Tabachnick & Fdell, 2007). The second way to test the multi-co-linearity is by testing the Tolerance and variance inflation factor (VIF). The tolerance (TOL) should be above 0.10 and (VIF) should be less than 10 to indicate no multi-co-linearity between the independent variables.

The choice of statistical technique depends on the distribution and the nature of the data, hence making it necessary to test the normality (Tabachnick & Fdell, 2007). Testing the normality of the data was done by checking skewness and kurtosis. The data are considered reasonably normal if the kurtosis values are lower than 10 and skewness values are lower than 3 (Kline, 1998). The basic assumptions of the regression analysis were investigated and presented in Chapter five of this study, where the results explained by using tables and figures.

4.9.6 Diagnostic Tests

After obtaining the appropriate model, diagnostic tests were conducted to check for multi-co-linearity using the variance inflation factor (VIF), heteroskedasticity using the modified Wald statistic, and lastly autocorrelation using the serial correlation test (Wooldridge, 2000). In addition, the residuals are not normally distributed; it is quite often the case that one or two extreme residuals have caused the rejection of the normality assumption. These residuals are call outliers and effectively removed from the observations (Brooks, 2019). If the problem persists, another way out is to increase the number of observations.

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4.10 Chapter Summary

This chapter has presented a methodology that is adapted. The research framework presented, followed by the development of the study hypotheses. This followed by the description of the population and sample of the study. Operational definitions and measurement of variables then discussed and two control variables. Empirical methodology and model specification then discussed. Following the procedures laid out in this chapter, the next chapter provides the analysis of data and discussion of results.

CHAPTER FIVE

RESULTS AND DISCUSSION

5.1 Introduction

This chapter starts with a discussion on sampled companies, characteristics, and sample distribution. It is followed by the descriptive analysis and the results of the correlation, which, show the relationship between the variables that are relevant to the research questions. In addition, the processes of conducting diagnostic tests and the regression is outlined. Furthermore, the discussion of the findings and a summary of all results at the end of the chapter are provided.

5.2 Sample Characteristics

The study focused on the sample, which comprises non-financial firms listed on the NSE for the years 2011, 2012, 2013, 2014 and 2015. Table 5.1 describes the companies in the data set. The companies that did not have annual reports available at the time of data collection were deleted from the sample as recommended by Che-Ahmad and Osazuwa (2015) and panel data regression was applied. Table 5.1 provides a picture of the distribution of NSE listed companies across sample characteristics. The companies were classified into ten (10) industries. The sample of the study was according to their ranking by listing requirements in the NSE. The companies that ranked in the first tier listed are highly quoted in the stock exchange. Therefore, they possessed the ability to disclose financial information to the advantage of the shareholders, enhance financial reporting quality and thereby increase the investor confidence, and reduce the problem of information asymmetry (Barbu *et al*., 2014; Jensen & Meckling, 1976).

The delisted companies were the companies excluded due to inability to meet up with the market capitalization of shares based on the requirements of NSE (Rulebook of the Nigerian Stock Exchange, 2015). The regulatory supervisory authority of the Central Bank of Nigeria (CBN) licenses the financial firms while the nonfinancial firms are not obliged to such authority. Hence, the study adopted the non-financial firms as a case study due to the different regulatory framework and accounting policies (Bradbury *et al.*, 2006; Tarling, 2009). In this thesis, the unbalanced panel data was adopted (Che-Ahmad and Osazuwa, 2015).

Table 5.1 Sample Selection Sample Size 457 Observations

	2011	**2012**	**2013**	**2014**	**2015**	**Total**
Total listed companies	184	184	184	184	183	919
Less delisted companies	0	0	0	0	1	1
Less financial services	41	39	43	41	43	207
Unavailable and missing Annual reports figures	56	56	46	51	44	254
Total size of sample	87	86	93	92	99	457

Sources; *NSE fact book year (2011-2015)*

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Table 5.2 Nigerian Stock Exchange (NSE) Industry Classifications (2011-2015)

	2011		2012		2013		2014		2015		Total	
Industry	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Agriculture	3	2.34	2	1.56	4	2.90	4	3.01	3	2.19	16	2.41
Conglomerates	7	5.47	7	5.47	8	5.80	8	6.02	8	5.84	38	5.72
Construction/Real estate	3	2.34	3	2.34	3	2.17	3	2.26	3	2.19	15	2.26
Consumer goods	19	14.84	20	15.63	21	15.22	20	15.04	21	15.33	101	15.21
Healthcare	6	4.69	6	4.69	6	4.35	6	4.51	7	5.11	31	4.67
ICT	7	5.47	7	5.47	7	5.07	7	5.26	7	5.11	35	5.27
Industrial goods	18	14.06	18	14.06	20	14.49	18	13.53	16	11.68	90	13.55
Natural resources	3	2.34	4	3.13	3	2.17	4	3.01	4	2.92	18	2.71
Oil & gas	7	5.47	8	6.25	7	5.07	8	6.02	8	5.84	38	5.72
Services	14	10.94	14	10.94	16	11.59	14	10.53	17	12.41	75	11.30
Total	87	100	89	100	95	100	92	100	94	100	457	100

Sources; NSE fact book year (2011-2015)

Note: Nos = number of companies within each industrial sector; %= number of companies within an industry in relation to the total number of companies for a given year

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Table 5.2 is the sample of firms made up of ten (10) industries that comprise of services and non-services companies listed on the Nigeria Stock Exchange (NSE). The companies are made up of the first tier firms quoted in NSE and the ranking based on the market capitalization of shares. The justification for choosing the firms was that they must be non-financial firms listed in the NSE from the period of 2011-2015. The company must not be banks, investment companies, and financial brokers. The information of the company must be available and accessible from the annual report (Adelopo, 2011).

The bigger firms on the NSE gave that larger firms could find it easier to ensure high-quality financial reporting. Therefore, they are better placed to disclose their financial information to the public because larger firms are in the position to disclose information than the smaller firms (Barbu *et al*., 2014; Galani *et al*., 2011). In Table 5.2, the industry classification of the consumer goods was 15.21% and industrial gas was 13.55%. Similarly, the services sector rated 11.35 % and conglomerates, oil, and gas, ICT rated at 5.72% while natural gas was 2.71% and finally, agriculture rated at 2.41%.

5.3 Financial Reporting Quality

The descriptive statistics for the mandatory financial statement, which was used to measure financial reporting quality, is presented in the descriptive statistic of Table 5.3. The statistics reveal that the mean mandatory financial statement score was 0.68 (68%) with a minimum score of 0.21 (21%) and a maximum of 1.00 (100%). The result shows that on the average the sampled companies had average financial reports, which show the overall high financial reporting quality as measured using the index.

5.3.1 Descriptive Statistics

In the course of this section, the descriptive statistics for all regression variables for the financial reporting quality models are discussed. The descriptive statistics consists of percentages; mean, standard deviation, minimum and maximum values of the variables. This helps to detect any errors such as data entry mistakes. For the purpose of descriptive statistics, the total assets are in the natural logarithm form (Che-Ahmad & Osazuwa, 2015).

Table 5.3 Descriptive statistics of Variables (N= 457)

Variable	Mean	Min	Max	p50	Sd	Skewness	Kurtosis
FRQ	0.684809	0.21875	1	0.65625	0.181072	-0.00399	2.033104
BLOCKSHARE	20.14488	0	85.88	15.53	18.34372	1.310372	4.755651
DIRESHARE	0.202111	0.000153	0.9718914	0.07842	0.241941	1.126096	3.186767
BODSIZE	8.450766	5	14	8	2.116737	0.576197	2.738878
BODIND	0.707342	0.363636	0.9285714	0.71429	0.128653	-0.21236	2.082954
ACIND	0.457112	0.166667	0.75	0.5	0.113801	-0.3314	4.199325
ACDIL	3.540481	1	7	4	1.061178	0.478089	3.82222
ACSIZE	5.107221	2	6	6	1.224518	-1.00856	2.763981
ACEXP	0.575492	0	3	0	0.805199	1.166862	3.318242
BIG4	0.459519	0	1	0	0.498905	0.162459	1.026393
AUDTENU	0.547046	0	1	1	0.498327	-0.18902	1.035729
FSIZE	15.97857	9.383958	20.5254	16.0785	1.788372	-0.14449	2.956871
ROE	0.086737	-8.10919	0.9204271	0.10319	0.449315	-13.7325	245.8416

5.3.2 Descriptive Statistics of Continuous Variables

This section discusses descriptive statistics of all continuous variables (dependent, independent and control variables) for the sample. The descriptive statistics employed an econometric analysis (a panel regression) over the period of 2011-2015. Data collected were winsorized at 1% to reduce the effect of outliers (Dehnel, 2014). The decision to winsorize is in line with Afrifa and Padachi (2016).

In Table 5.3, which includes all the variables in the study, block holders (BLOCKSHARE) of the sampled companies held 20.14% of the shares while director shareholder (DIRESHARE) held the share of the sampled companies with a maximum 0.97% and a minimum of 0% and the average of 0.20% were in the hand of directors. This result shows that for the sampled companies, only a few percentages of the company's shares were in the possession of the board of directors. Furthermore, the mean for the total number of directors on the board (BODSIZE) is 8.50, with a standard deviation of 2.12. The size of the board ranges from a minimum of 5 directors to a maximum of 14 directors. The average number of directors shows that the sampled firms have a relatively large board and the board size is comparable. The studies by Latif, Kamardin, Mohd and Che Adam (2013) done in Malaysia, and Uwuigbe and Ajibolde (2013) carried out in Nigeria found the average board size to be 7.64 and 10 respectively.

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Regarding the independence of the entire board, the mean is 0.71, with a standard deviation of 0.13. This is slightly higher than studies by Uwuigbe and Ajibolade (2013), Amran and Che-Ahmad (2009) and Li and Song (2013) that each found the mean to be 0.414, 0.548 and 0.46 respectively.

While for the independence of the audit committee (ACIND), the mean is 0.46 with a standard deviation of 0.11. The result differs from the study by Othman *et al*. (2014) carried out in an emerging market that found the mean to be 0.87, and Li and Song (2013) a cross-country study that found the mean to be 0.64. In the case of audit

committee diligence (ACDIL), the mean (standard deviation) is 1.06 times 3.54 times of number of meetings, ranging from a minimum of one (1) time to the maximum of seven (7) times. It is also less than Rustam *et al*. (2013) that reported 4.67 times and Othman *et al*. (2014) in Malaysia that reported 5.60 times. On average, the audit committee comprised approximately five directors with a minimum of two (2) and a maximum of six (6). Furthermore, describing the audit committee independence of the sampled firms on the average, the firms comprised about 0.46% of their members having some lack of independence relating to financial matters. The minimum case is 0.2% and a maximum of 0.75%.

Looking further at the characteristics of the auditor, which serve as the moderating variables, on the average, about 46% of the firms sampled audited by the Big 4 auditors and about 55% of the firms had a long auditor tenure.

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The description of the control variables is shown in Table 5.3. The mean for the log of total assets (FSIZE) is 15.98, with a standard deviation of 1.79. The assets amount ranges from a minimum of 9.38 to a maximum of 20.53. The mean total assets for all companies is comparable to Amran and Che-Ahmad (2010) that reported a value of 12.73 and is much larger than Che-Ahmad and Osazuwa (2015) that reported mean total assets of 7.65. It signifies that a larger firm size disclose more information to the advantage of the shareholders (Barbu *et al*., 2014). The average return on equity (PROF) is 0.09, with a standard deviation of 0.45, ranging from the minimum of -8.11 to a maximum of 0.92. The mean ratio for profitability is comparable to the study by Che-Ahmad *et al*. (2003) that reported a return on equity ratio of 0.2.

5.4 Analysis of Correlations

This section outlines the Pearson Correlation between variables of board characteristics (the block shareholding, director shareholding, the board size, board independence, audit committee independence, audit committee diligence, audit committee size, and audit committee expertise) and control variables in the financial reporting quality model. The computation of the correlation coefficients was undertaken to analyze the relationships between all the variables, including identifying the significant correlations among the independent variables as well as detecting potential multi-co-linearity among the variables in the study (Pallant, 2007).

5.4.1 Correlation Coefficients of the Financial Reporting Quality

Correlation analysis was used to measure the linear association between the variables of the study (Gujarati, 2009). The relationship could be positive or negative; it is also used to measure the collinearity that exists among the explanatory variables. A correlation analysis was computed for all the variables. All the board characteristics variables and the control variables have a high correlation with the financial reporting disclosure index, suggesting that the variables do not appear to measure the same thing. The result also shows the multi-co-linearity between the variables.

As contained in Table 5.4, a correlation analysis was conducted for the direct, the interaction terms, and the variables from which they were formed to investigate if the inclusion of the individual interaction leads to a multi-co-linearity problem. The result shown in Table 5.4 reveals that in majority of the cases, the board characteristics

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interaction was highly correlated with the FRQ. A correlation coefficient of 0.90 is high and shows that there is the problem of multi-co-linearity (Pallant, 2007). There are two categories of tests with negative signs indicating they are negatively correlated thus reducing the correlation financial reporting quality. The proportion of non-executive director to the total director on the board is used as the measurement. This shows that board might be truly independent especially when compared to developed countries that use the proportion of independent to total director on the board in their measurement. Considering most annual report of the companies in Nigeria, they do not disclose the independent directors on the board in the annual report. This could be the possible reason for the negative relationship. As shown in the first column of Table 5.4, there is a positive relationship between block shareholdings and financial reporting with a value of 0.003. This implies that BLOCKSHARE interaction was low with FRQ. Fauzi and Locke (2012) also indicate that firms with block shareholdings tend to have low correlation with financial reporting quality.

Furthermore, a correlation analysis was conducted for the interaction terms and the variables from which they were formed to investigate if the inclusion of the individual interaction leads to a multi-co-linearity problem. There exists a negative correlation between director shares and financial reporting with a value of -0.06. This indicates that DIRESHARE was negatively highly correlated with FRQ. The conclusion is consistent with Rubin and Segal (2011) that firms with director shareholdings tend to have high correlation with financial reporting quality.

In addition, the correlation analysis shows a positive relationship between board size and financial reporting quality with a value of 0.07. This means that BODSIZE is highly correlated with FRQ. Invariably, firms with high board size tend to have a higher financial reporting quality, which is in agreement with Barbu *et al*. (2014).

In contrast to the previous result, a negative relationship found between board independence and financial reporting quality with a value of -0.08. This indicates that BODIND was negatively highly correlated with FRQ. The implication of this is as Firoozi Magnan and Fortin (2016) suggested that board independence has an inverse relationship with financial reporting quality. Similarly, the correlation result shows a negative association of ACIND with financial reporting with a value of -0.04. This indicates that ACIND has a low correlation with FRQ. The result contradicts Kantudu and Samaila (2015) and Higgs (2003) that opined that the more the audit committee is independent, the higher the financial reporting quality.

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In relation to ACDIL, the result emanating from Table 5.4 shows a positive correlation between ACDIL and financial reporting with a value of 0.06. This means that ACDIL is highly correlated with FRQ. In addition, this implies that firms with frequent audit committee meeting tend to have high financial reporting quality, which is in tandem with Nkundabanyanga *et al*. (2013).

Additionally, ACSIZE shows a positive correlation with financial reporting quality (FRQ) with a value of 0.10. This implies that ACSIZE is highly correlated with FRQ.

Consequently, Barbu *et al*. (2014) posit that firms with large audit committee size tend to have high financial reporting quality.

Furthermore, ACEXP also exhibits a positive relationship with financial reporting with a value of 0.13. This means that the strength between them is 13%, which indicates that ACEXP is highly correlated with FRQ. Invariably, Kusandi *et al*. (2016) explored that firms with quality expertise tend to have high financial reporting quality.

In addition, Table 5.4 reveals a positive relationship between BIG 4 and FRQ with a value of 0.07. This indicates that the strength between the variables is 7%, which shows that BIG 4 is highly correlated with FRQ. Salaudeen *et al*. (2015) investigated that BIG 4 have a productive effect on the firms' financial reporting quality. Similarly, there also exists a positive relationship between AUDTENU and financial reporting with a value of 0.09. This implies that AUDTENU is highly correlated with FRQ. Kim and Yang (2014) examined and found the impact audit tenure has on the financial reporting quality of firms to be positive.

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Finally, for the control variables of FSIZE and ROE, they both exhibit a positive relationship with financial reporting with value of 0.10 for both variables. This implies that FSIZE and ROE are highly correlated with FRQ. Barbu *et al*. (2014) and Che-Ahmad and Osazuwa (2015) reveals that larger firms and profitability have effects on the FRQ.

Table 5.4 Correlation Coefficient

	FRQ	BLOCKSHARE	DIRESHARE	BODSIZE	BODIND	ACIND	ACDIL
BLOCKSHARE	0.0031	1					
DIRESHARE	-0.0608	0.0673	1				
BODSIZE	0.0678	-0.0599	-0.2016*	1			
BODIND	-0.0831	-0.0344	-0.0739	-0.0141	1		
ACIND	-0.0386	0.0443	0.1890*	0.1026*	0.1960*	1	
ACDIL	0.0629	0.0158	-0.1338*	0.2916*	0.0445	-0.0234	1
ACSIZE	0.1046*	-0.0975*	-0.1644*	0.2165*	-0.0723	-0.0648	0.0701
ACEXP	0.1247*	0.0017	-0.1771*	0.2643*	-0.1244*	-0.1652*	0.1408*
BIG4	0.0694	-0.0972*	-0.1300*	0.1274*	-0.1091*	-0.2701*	-0.0435
AUDTENU	0.0856	-0.0909	-0.0044	-0.1387*	-0.0176	-0.1654*	0.0534
FSIZE	0.0950*	-0.1435*	-0.3278*	0.4419*	-0.0723	-0.1798*	0.3295*
PROF	0.0946*	-0.0291	-0.0563	0.1212*	0.0308	-0.0396	0.0393

	ACSIZE	ACEXP_	BIG4	AUDTENU	FSIZE	PROF_
ACSIZE	1					
ACEXP	0.2954**	1				
BIG4	0.4971*	0.4976*	1			
AUDTENU	-0.0784	0.0936*	-0.0607	1		
FSIZE	0.3169*	0.4296*	0.3955*	0.0613	1	
PROF	0.1845*	0.1603*	0.1692*	0.0089	0.1571*	1

Note: Correlation is significant at *p<.10; **p<.05; ***p<.01.

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5.5 Diagnostic Test

Furthermore, the analysis to detect multi-co-linearity using the Collinearity Diagnostic Test by giving tolerance value, and variance inflation factors (VIF) is applied. This is to ensure no serious collinearity problems among the independent variables, which might lead to impair the accuracy and stability of the next steps of the analysis. Using this approach, the acceptable level of collinearity should be more than 0.10 for tolerance value, and it was confirmed when running the VIF that the result shows a mean of 1.34 which is below the threshold value of 10 (Hair *et al*., 2014). The result from the coefficient of correlation displays the result of the Collinearity Diagnostic Test for the variables involved in testing the hypotheses. The results show that the tolerance value of each independent variable is greater than 0.1, which can lead to the conclusion that not all the variables in the model are free from multi-co-linearity problems.

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Table 5.5 Summary of Variance Inflation Factor

Variable	**VIF**	**1/VIF**
BIG4	1.89	0.528093
FSIZE	1.81	0.55384
ACEXP	1.55	0.644736
BODSIZE	1.43	0.699859
ACSIZE	1.42	0.703115
ACIND	1.25	0.802475
ACDIL	1.22	0.817987
DIRESHARE	1.19	0.840925
AUDTENU	1.12	0.895419
BODIND	1.08	0.92244
PROF	1.06	0.941448
BLOCKSHARE	1.05	0.949289
Mean VIF	1.34	

The result from the coefficient correlation suggests that multi-co-linearity should not be a severe problem for this model. In the same way, the results are within the acceptable level of multi-co-linearity. Similar to other data structures, like cross-sectional and time-series data, panel data also require diagnostic tests in order to ascertain how appropriate the panel data models are. In general terms, unlike the multiple regression models which have to meet several assumptions before the results can be relied upon, the panel data models are based on Generalized Least-Squares (GLS) equation techniques, which is the transformed variable of Ordinary Least Square (OLS), and as such already meets the OLS assumptions so the result could be more robust (Greene, 2002).

5.5.1 Group-Wise Heteroskedasticity

Heteroskedasticity exists if the residuals of a regression model are unequal or have non-constant variance. In order to check the problem of heteroskedasticity and considering Table 5.6, the results show the Spearman correlation between the absolute value residual and the key independent variables. The values obtained indicates the presence of heteroskedasticity problem with the probability value of $p<0.01$ by the modified Wald test conducted for the financial reporting quality model (Verbeek, 2008). Moreover, if the chi-square exceeds the critical value, then there is heteroscedasticity, and the result obtained showed that the data has an issue of heteroscedasticity. This is rectified using the robust standard error estimates based on the command “xtreg cluster codes” (Hoechle, 2007).

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Table 5.6 Modified Wald Test for Groupwise Heteroskedasticity

	M1	**M2**
Chi2 (1)	60589.06	130000
Prob> chi2	0.00	0.00

5.6 Autocorrelation Wooldridge Test

Table 5.7 shows the presence of autocorrelation using the Wooldridge test for autocorrelation in the panel data. The use of Wooldridge test in verifying, detecting and rectifying indicates the issue of autocorrelation. The presence of autocorrelation makes the OLS estimators become biased and inefficient and so may no longer be the best linear unbiased estimator (Gujarati, 2009). A p-value>0.00 fails to reject the null hypothesis and concludes no first-order autocorrelation in the dataset.

Table 5.7 Wooldridge Test for Autocorrelation in Panel Data

	M1	**M2**
F1	278.736	283.154
Prob > F	0.00	0.00

5.7 Panel Regression Analysis

The pooled regression model assumes that there is homogeneity between the intercepts. The pooled effect model is appropriate when there are effects of multi-co-linearity present. Whereas, the random effects or fixed effects is valid when the variance of the model is not zero (Hendersen & Kaplan, 2000).

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5.7.1 Pooled Model Vs Random Effects Model

The first process involved in the panel regression analysis entails that the researcher ascertains that the random-effects model is significant and not zero (Baltagi, 2005), which connotes that there exists in the model the presence of unobserved effects (Wooldridge, 2002). If these conditions are not met then the random effects are not appropriate (Gujarati, 2009).

Table 5.8 shows that the Lagrangian Multiplier test provides the answer to ascertain if the Chi-square for the random effect model is significant (Breusch & Pagan, 1980). The result of the Breuch Pagan Lagrangian Multiplier test for the financial reporting quality models shows that the chi-square χ^2 equals 16.33 and 10.12, for Model 1 and Model 2 respectively. Both values are highly significant, since the p-values=0.00 for both models. Thus, the null hypotheses is rejected. The rejection of these null hypotheses indicates that the variance of random effects is not equal to zero, and that the random-effects model is appropriate for the financial reporting quality data set.

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Table 5.8 Lagrangian Multiplier Test for Financial Reporting Quality Model

	M1	**M2**
Chi2 (1)	16.33	10.12
Prob > F	0.0000	0.0007

5.7.2 Random Effects vs Fixed Effects Model

The next step entails ascertaining the ideal panel regression to use. The choice will be between the fixed effects and the random effects regression (Tarling, 2009). This is necessary for ascertaining whether there are significant differences between the coefficients of the models (Gujarati, 2009).

Based on Table 5.9, the Hausman specification test provides the answer to the question of which model is suitable. Hence, the Hausman test compares the coefficient of the fixed effects model and the random-effects model (Kealey, Lee & Stein, 2002). The test is based on the null hypothesis that there is no significant difference between the coefficients of the two models. Based on Table 5.9, the chi-square χ^2 equals 48.57 and 69.42 for Model 1 and Model 2 respectively. Thus, the Hausman test for financial reporting quality is significant ($p<0.05$) for the two models. The result suggests that there is a significant difference between the coefficients of the random effects and the fixed effects models (Che-Ahmad & Osazuwa, 2015). Therefore, the fixed effects regressions model prevails for the financial reporting quality model.

Table 5.9 Hausman Specification Test for Financial Reporting Quality

	M1	**M2**
Chi2 (1)	48.57	69.42
Prob> chi2	0.00	0.00

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The next step entails ascertaining the ideal panel regression to use. The choice will be between the fixed effects and the random effects regression (Tarling, 2009). This is necessary for ascertaining whether there are significant differences between the coefficients of the models (Gujarati, 2009).

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5.7.3 Fixed Effects Model Result for Financial Reporting Quality

The result of the Hausman test supported the fixed effects model. The models were tested for heteroskedasticity and autocorrelation, and the results of the modified Wald test for heteroskedasticity with probability values ($p<0.01$) shows the presence of both problems in the two models. The fixed effect models were then rectified of autocorrelation and heteroskedasticity problems using the robust standard error estimates based on the stata command ''xtreg cluster (code)'' (Hoechle, 2007).

After meeting the validity assumption of the random-effects model, the random and fixed effect analysis is considered. The next discretion is either to rely on the random effects or the fixed effects model result and this decision is based on the Hausman specification test (Hausman, 1978). A non-significant value indicates the absence of correlation between the composite error and the independent variables in the model and the random-effects model is appropriate. The control variables in the first step, followed by the hypotheses variables, then the moderator variables and lastly the moderating terms created by multiplying the hypotheses variables requiring moderation with the moderating variables.

In case any of the underlying regression model's assumptions violated in the current study, the data is suffering from GROUP-WISE HETRO, autocorrelation. To ensure valid statistical inference, it is normal to rely on robust standard errors based on the alternative covariance matrix estimators as developed by Huber (1967) and White (1980). These alternative covariance matrices assume that the residuals are independently distributed and standard errors by the help of these estimators are consistent. The generalized estimator results in inconsistent standard errors if residuals correlated within but uncorrelated among cross-sections. Even though these methods are robust to specific violations of the regression model's assumptions, these techniques are not robust to GROUP-WISE HETRO and Paris Winsten regression is applied (Hoechle, 2007).

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5.8 Multivariate Analysis

Multivariate statistics is conducted to determine the effect of the eight (8) independent variables of board characteristics mechanism on financial reporting quality. Two models applied in the regression analysis with different proxies are used to test the hypotheses. In particular, Model 1 was based on the board characteristics and control variables with the use of multiple regression to analyses the association between the variables. On the other hand, Model 2 comprises of all variables, hypotheses, moderating effect and the control variables. The moderating effects of audit tenure and Big 4 were analyzed Model 2. This section discusses the findings from the statistical analysis.

5.8.1 Model 1 Hypothesis variables and the Control Variables

Table 5.10 shows that the R^2 for the fixed effects regression for Model 1 is 4%. The R^2 determines the fitness of the model. The results show the variation in financial reporting quality that is explained by the independent variables. Model 1 had shown the hypotheses variables and the control variables which are the independent variables introduced (board characteristics) and control variables regressed against the dependent variable.

$$FRQ_{it} = \beta_0 + \beta_1 BLOCKSHARE_{it} + \beta_2 DIRESHAREE_{it} + \beta_3 BODSIZE_{it} + \beta_4 BODIND_{it} + \beta_5 ACIND_{it} + \beta_6 ACDIL_{it} + \beta_7 ACSIZE_{it} + \beta_8 ACEXP_{it} + \beta_9 FSIZE_{it} + \beta_{10} PROF_{it} + \varepsilon_{it}$$

Table 5.10 Fixed Effects Regression Results for Financial Reporting Quality: Model

Variables	Coef.	Std. Err.	T Statistics	P>t	[90% Conf.	Interval]
BLOCKSHARE	0.0001	0.0003	0.3300	0.7390	-0.0004	0.0006
DIRESHARE	-0.0249	0.0167	-1.4900	0.1360	-0.0524	0.0026
BODSIZE	0.0006	0.0017	0.3500	0.7230	-0.0022	0.0034
BODIND	-0.1072	0.0528	-2.0300	0.0420**	-0.1941	-0.0203
ACIND	0.0023	0.0368	0.0600	0.9500	-0.0583	0.0629
ACDIL	0.0071	0.0073	0.9800	0.3290	-0.0049	0.0191
ACSIZE	0.0081	0.0032	2.5100	0.0120***	0.0028	0.0133
ACEXP	0.0164	0.0079	2.0800	0.0380**	0.0034	0.0293
FSIZE	0.0004	0.0038	0.1000	0.9180	-0.0058	0.0066
PROF	0.0285	0.0149	1.9200	0.0550*	0.0040	0.0529
Constant	0.6731	0.0654	10.2900	0.0000	0.5655	0.7807

Notes: The coefficient values are presented with the t-statistics in the parenthesis, *p<.10; **p<.05; ***p<.01, probabilities represent one-tailed when the direction of the coefficient is consistent with expectations, two-tailed otherwise).

H1a predicts that there is a significant and positive relationship between block holder and financial reporting quality. The result in Model 1 from Table 5.10 shows that there is an insignificant relationship between block holder (BLOCKSHARE) and financial reporting quality (β = 0.0001; P>.05). Other things being equal, the result suggests that the presence of block shareholders in the company insignificantly reduces the quality of financial reporting. The result, therefore, does not provide support for H1a. The results did not support the principle of the agency and stakeholder theory that posits that block shareholder in firms are a source of the agency problem. The block shareholding is involved in high gain propensity in order to extract private benefits of control to the determent of minority shareholders.

The block holders are inclined towards committing funds non-value-maximizing projects that can provide benefits and potentially expropriate minority shareholders

(Lemmon & Lins 2003; Dou, Hope, Thomas, & Zou, 2018).). Baek, Jang, and Park (2004) posit that block holder has a strong incentive to siphon resources out of members firms to increases their individual wealth. Klai and Omri (2011) documents that block holders in Tunisian companies reduce the reporting quality. The block holders may have the incentives to take merits of asymmetric information especially when they hold a large fraction of the shares, which may alter the information quality (Jensen, 2010).

H1b stated that there is a positive and significant relationship between director shareholdings (DIRESHARE) and financial reporting quality. Considering Model 1, the results in Table 5.10 shows that the relationship between director shareholdings (DIRESHARE) and financial reporting quality is insignificant (β = -0.0249; P>0.10). The result suggests that the director's shareholdings do not influence the quality of financial reporting. These results fail to provide support for the prediction in hypothesis H1b that there exists a positive relationship between director's shareholding and financial reporting quality. The directors are complacent, incapable in their overseeing and monitoring responsibilities in their duties and rather more occupied about their self-interest gain that leads to falsification and lack of transparency in the financial statement (Zhang, 2016). The directors are ineffective and lack supervisory roles, which led to poor financial reporting quality (Abidin *et al.*, 2009; Zhou *et al.*, 2018). The result is not in support of agency and stakeholder theories (Jensen, 1983). The director is also involved in agency conflict by not being able to manage the affairs of the organization, which gives rise to lack of transparency, and

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poor investors' protection that would lead to poor financial reporting (Jensen and Meckling, 1976; Juhmani, 2013).

H1c predicts that there is a positive significant relationship between board size and financial reporting quality. The result in Model 1 from Table 5.10 shows that the relationship between board size (BODSIZE) and financial reporting quality is insignificant (β =0.0006; P>.05). The result suggests that the size of the board does not influence the quality of financial reporting. This result fails to provide support for the prediction in hypothesis H1c that there exists a positive relationship between board size and financial reporting quality (Abidin *et al.*, 2009; Uwuigbe & Ajibolade, 2013; Akhtaruddin *et al.*, 2009; Damagun & Chima, 2013; Haji, 2013).

The plausible reasons could be that larger boards are likely to be less effective and likely to have a lower degree of independence and expertise than smaller boards. It is therefore likely that the difficulty of coordination and reaching consensus in decision making associated with large boards could make the CEO have control over the board, and thus appropriate private benefits in form of excessive compensation (Jensen, 1993). They are therefore likely to lack experts on specific issues such as financial reporting quality (Dalton *et al.,* 1999; Fathi, 2013). In addition, the size of the board decreases the director's ability to monitor managers in order to enhance transparency and financial reporting quality (Chalaki, Didar & Riahinezhad, 2012; Zahra *et al.*, 2000). Further, Haji (2013) also supports the view of a negative relationship arguing

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that the directors with larger boards would prefer secrecy transparency in an effort to be accountable to the society.

H1d predicts that there is a significant relationship between board independence and financial reporting quality. However, the result of Model 1 as showm in Table 5.10 displays the relationship between board independence (BODIND) and financial reporting quality ($\beta = -0.1072; P>.05$) to be negative and significant at the 5% level of significance. The result suggests that independent directors could decrease the quality of financial reporting. The result, therefore, fail to supports H1d. The result indicate that the board is significant but they are inefficient in carrying out their duties. The result contradict with that of Ofoegbu *et al. (*2018) and Bello (2013) who documented that independent board director is significant and positive thereby implying that their monitoring characteristics in influencing financial reporting quality is high. The result also contradicts that of Herda *et al*. (2013) which opined that the independent board is capable and effective of publishing higher quality financial reports. Additionally, Uwuigbe and Ajibolade (2013) documented that the independent board has a significant and positive relationship with corporate social environmental disclosure. Abidin *et al*. (2009) recorded that the independent board has a negative impact on firm financial reporting quality. Thus, the finding of this research is in tandem with previous studies as stated above. Hence, H1d is hereby rejected.

H1e shows that there is a significant relationship between the independence of the audit committee and financial reporting quality. The result in Model 1 from Table 5.10

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shows that the relationship between the independence of the audit committee (ACIND) and financial reporting is insignificant ($\beta = 0.0023$; $P>.05$). The result suggests that the independence of the audit committee does not influence the quality of financial reporting. These results fail to provide support for the prediction in hypothesis H1e that there exists a positive relationship between audit committee independence and financial reporting quality. The insignificant result between the independence of the audit committee and financial reporting quality is consistent with previous studies (Abdul Rahman & Mohamed Ali, 2006; FRCN, 2015). In addition, Kusnadi, Leong, Suwardy & Wang (2016) and Othman *et al.* (2014) found no relationship between audit committee independence and financial reporting statement, as well as on mandatory ethics of financial statement.

The results suggest that the audit committee might not be interested in mandatory issues such as financial reporting quality matters. The committee will only be concerned with the internal control systems in place and its implication on the financial health of the organization. In addition, the insignificant result in the Nigerian context implies that the audit committee might not be truly independent as the SEC code of corporate governance. The code was silent on the inclusion of an independent director as part of the members of the audit committee (Che-Ahmad & Osazuwa, 2015). The insignificant result is in line with Kota and Tomar (2010) and Moses, Ofuru & Egbe (2014) that the mere existence of audit committee members on the board is not enough for the audit committee to perform its role effectively. Furthermore, the audit

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committees only play a ceremonial or symbolic role in monitoring the financial reporting process.

Similarly, financial reporting quality and audit committee independence showed positive insignificant relationship from the study. This is an indication that the role of the audit committee is not adhered to as stipulated by SECN for quoted companies in Nigeria. Nonetheless, the SECN states that audit committees independence are expected to play important roles in monitoring and overseeing the company's financial statement and ensuring high-quality financial reporting. This provides a possible explanation of why they will align with the executives and perhaps chase financial statements to the detriment of financial reporting quality.

H1f shows that there is a positive significant relationship between the diligence of audit committee and financial reporting quality. The result presented in Model 1 as displayed in Table 5.10 shows that the relationship between audit committee diligence (ACDIL) and financial reporting quality ($\beta = 0.0071$; P>.05) is insignificant. The audit committee members in the company significantly decrease the quality of financial reporting. The result, therefore, fails to provide support for H1f. One of the reasons articulated for the lower frequency of board meeting that led to higher liberation of directors of the firm is to exhibit the opportunistic behavior against the owners of the organization that have an adverse effect on the financial reporting quality process (Al-Ghamdi, 2012). Abbott *et al.* (2004) reported a negative association between the frequency of meetings and corporate fraud and financial restatement. Davidson *et al.*

(2005) used a sample of 434 listed Australian firms and found that audit committee diligence are associated with higher earning management, which led to poor financial reporting information. In addition, Baxter and Cotter (2009) asserted that the audit committee meeting is not necessary to constrain financial reporting quality. Said *et al.* (2009) document the lack of frequency of meeting also affect the eagerness to address organizational matters that crumble firms.

The agency and stakeholder theories posit that the meeting of the board would enhance financial reporting quality and address organizational issues in the firms. In the Nigerian context, the lack of frequent board meetings has an adverse effects on companies and cripple many firms thereby reducing the efficiency of the investment in Nigeria (Elijah & Ayemere, 2015; Braswell, Daniels, Landis, & Chan*g*, 2012).

H1g predicts that there is a positive significant relationship between the size of the audit committee and financial reporting quality. The result showed Model 1 in Table 5.10 that the relationship between audit committee size (ACSIZE) and financial reporting quality ($\beta = 0.0081$; $P<.01$) is positive and significant at the 1% level of significance. Other things being equal, the result suggests that the size of the audit committee significantly increases the quality of financial reporting. The result, therefore, provides support for H1g. Prior studies opine that audit committee size has impact corporate financial statement (Barako &Tower. 2007; Firoozi, Magnan & Fortin, 2016; Kusnadi *et al*., 2016; Onuorah & Friday, 2016). The audit committee size enables the member to distribute the workload and dedicate more time and resources

in monitoring the financial reporting quality (Onuorah & Friday, 2016). In Nigeria, Section 359 (3) of CAMA (2004) incorporated the establishment of the audit committee in discharging their responsibility.

H1h shows that there is a positive significant relationship between the expertise of the audit committee and financial reporting quality. The result presented in Model 1 from Table 5.10 shows that the relationship between audit committee expertise (ACEXP) and financial reporting quality (β = 0.0164; $P<.05$) is positive at 5% level of significance. The result suggests that the expertise of the audit committee increases the quality of financial reporting from the result of the analysis. The result, therefore, provides support for H1h.

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Cohen *et al*. (2013) posit that audit committee expertise improves audit committee effectiveness thereby enhancing financial reporting quality. The firm with financial expertise in finance is capable of detecting material errors and falsification of accounting figure in the financial statements (Wu *et al*., 2007). The audit committee expertise possesses the ability to monitor and oversee the company's financial reporting process (Naiker *et al.,* 2013). Bedard *et al*. (2004) and Bedard and Gendron (2010) aver of the importance of audit committee expertise in efficient and effective monitoring role in ensuring high financial reporting quality and coordinating the management, external auditor and internal control system. Dhahwal *et al*. (2010) identify cases with financial expertise is associated with higher financial reporting quality and more efficient controlling devices of the external auditor. Krishnan (2005)

examined audit committee expertise and found a positive and significant relationship between governance expertise and financial reporting quality. In addition, Carcello *et al*. (2011) focused on financial expertise and reported a positive association between accounting expertise and financial reporting quality. Naiker *et al.* (2013) documented that financial expertise was effective in evaluating, which non-audit services could add value to the firm without unduly compromising auditor independence. Hoitash *et al.* (2009) reported the relationship between audit committee expertise and oversight of the external auditor to be positive and significant. The control variables FSIZE is not significant and PROF is significant at 10% level of significance. This implies that companies in Nigeria maximize their profit to the advantage of the shareholders.

5.8.2 Model 2 Inclusive all Variables; Hypotheses, Moderators, Moderating Effects and the Control Variables

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This study describes in this section Model 2 as shown in Table 5.11. The table shows that the R^2 for the fixed effects regression for Model 2 is 8%. The results show the variation in financial reporting quality by the moderating effect of audit quality in interaction with the board characteristics. This is regressed against the dependent variable to determine the moderating impact. The model is presented in the equation as follows based on Model 2.

$FRQ_{it} = \beta_0 + \beta_1 BLOCKSHARE_{it} + \beta_2 DIRESHAREE_{it} + \beta_3 BODSIZE_{it} + \beta_4 BODIND_{it} + \beta_5 ACIND_{it} + \beta_6 ACDIL_{it} + \beta_7 ACSIZE_{it} + \beta_8 ACEXP_{it} + \beta_9 FSIZE_{it} + \beta_{10} PROF_{it} + \beta_{11} BIG4_{it} + \beta_{12} AUDTENU_{it} + (\beta_{13} BLOCKSHARE_{it} * BIG4_{it}) + (\beta_{14} DIRESHARE_{it} * BIG4_{it}) + (\beta_{15} BODSIZE_{it} * BIG4_{it}) + (\beta_{16} BODIND_{it} * BIG4_{it}) +$

$(\beta_{17}ACIND_{it}*BIG4_{it}) + (\beta_{18}ACDIL_{it}*BIG4_{it}) + (\beta_{19}ACSIZE_{it}*BIG4_{it}) + (\beta_{20}ACEXP_{it}*BIG4_{it}) + (\beta_{21}FSIZE_{it}*BIG4_{it}) + (\beta_{22}PROF_{it}*BIG4_{it}) + (\beta_{23}BLOCKSHARE_{it}*AUDTENU_{it}) + (\beta_{24}DIRESHARE_{it}*AUDTENU_{it}) + (\beta_{25}BODSIZE_{it}*AUDTENU_{it}) + (\beta_{26}BODIND_{it}*AUDTENU_{it}) + (\beta_{27}ACIND_{it}*AUDTENU_{it}) + (\beta_{28}ACDIL_{it}*AUDTENU_{it}) + (\beta_{29}ACSIZE_{it}*AUDTENU_{it}) + (\beta_{30}ACEP_{it}*AUDTENUit) + (\beta_{31}FSIZE_{it}*AUDTENU_{it}) + (\beta_{32}PROF_{it}*AUDTENU_{it}) + \varepsilon_{it}.$

Table 5.11 Fixed Effects Regression Results for Financial Reporting Quality: Model 2

	Coef.	Std. Err.	Z	P>z	[90% Conf.	Interval]
BLOCKSHARE	-0.0005	0.0005	-0.9400	0.3450	-0.0013	0.0004
DIRESHARE	0.0107	0.0355	0.3000	0.7640	-0.0477	0.0691
BODSIZE	0.0009	0.0038	0.2300	0.8200	-0.0053	0.0071
BODIND	0.0808	0.1232	0.6600	0.5120	-0.1218	0.2834
ACIND	-0.0054	0.0973	-0.0600	0.9560	-0.1654	0.1546
ACDIL	0.0360	0.0134	2.6900	0.0070***	0.0140	0.0580
ACSIZE	0.0228	0.0036	6.4200	0.0000***	0.0170	0.0287
ACEXP	-0.0234	0.0149	-1.5700	0.1160	-0.0478	0.0011
FSIZE	-0.0055	0.0064	-0.8500	0.3930	-0.0160	0.0051
PROF	-0.0124	0.0311	-0.4000	0.6900	-0.0637	0.0388
BIG4	-0.0977	0.1168	-0.8400	0.4030	-0.2898	0.0944
AUDTENU	0.4967	0.1426	3.4800	0.0000***	0.2621	0.7313
BLOCKSHAREBIG4	0.0010	0.0003	3.3700	0.0010***	0.0005	0.0014
DIRESHAREBIG4	0.0754	0.0462	1.6300	0.1030	-0.0006	0.1515
BODSIZEBIG4	0.0043	0.0029	1.4600	0.1450	-0.0006	0.0091
BODINDBIG4	0.0563	0.1076	0.5200	0.6010	-0.1207	0.2333
ACINDBIG4	-0.0753	0.1036	-0.7300	0.4670	-0.2457	0.0951
ACDILBIG4	-0.0413	0.0202	-2.0400	0.0410**	-0.0745	-0.0081
ACSIZEBIG4	-0.0057	0.0074	-0.7700	0.4420	-0.0178	0.0065
ACEXPBIG4	0.0214	0.0140	1.5200	0.1280	-0.0017	0.0445
FSIZEBIG4	0.0104	0.0054	1.9400	0.0530*	0.0016	0.0193
PROFBIG4	0.0846	0.0784	1.0800	0.2800	-0.0443	0.2135
BLOCKSHAREAUDTENU	0.0001	0.0003	0.4000	0.6910	-0.0004	0.0006
DIRESHAREAUDTENU	-0.0766	0.0477	-1.6100	0.1080	-0.1550	0.0018
BODSIZEAUDTENU	0.0058	0.0051	1.1500	0.2520	-0.0025	0.0142
BODINDAUDTENU	-0.3535	0.1421	-2.4900	0.0130***	-0.5873	-0.1197
ACINDAUDTENU	0.0583	0.0715	0.8200	0.4150	-0.0593	0.1759
ACDILAUDTENU	-0.0184	0.0111	-1.6500	0.0980*	-0.0366	-0.0001
ACSIZEAUDTENU	-0.0213	0.0078	-2.7500	0.0060*	-0.0341	-0.0085
ACEXPAUDTENU	0.0497	0.0096	5.1700	0.0000***	0.0339	0.0655
FSIZEAUDTENU	-0.0089	0.0045	-1.9600	0.0500**	-0.0163	-0.0014
PROFAUDTENU	0.0441	0.0348	1.2700	0.2040	-0.0131	0.1013
CONSTANT	0.4677	0.1574	2.9700	0.0030	0.2088	0.7266

*p<.10; **p<.05; ***p<.01, probabilities represent one-tailed when the direction of the coefficient is consistent with expectations, two-tailed otherwise),

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H2a shows that Big 4 moderate the relationship between block holder and financial reporting quality. The result of Model 2 in Table 5.11 shows a significant relationship between the moderating term BLOCKSHAREBIG4 and financial reporting quality ($\beta = 0.0010$; $P<0.01$) at 1% level of significance, suggesting that big four auditors moderate the relationship between block holders and financial reporting quality. The results support hypothesis H2a that big four auditors moderate the relationship between block holders and financial reporting quality. BLOCKSHAREBIG4 positively moderates the relationship between the financial reporting quality and the coefficient increases from 0.0005 to 0.0014 in the moderating term. The positive results of this study support the principle of the agency and stakeholder theory that posits block holders infirm will be highly visible in the public eye and more likely to report more information in order to improve public relations and corporate image.

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The positive outcome is consistent with those of Kouki and Attia (2016) and Dou *et al*. (2013) that suggest block shareholders' firms perceived by auditors as risky and perhaps might have examined their annual reports to portray a view of shareholders find appealing. There are studies that have examined how block holder's ownership influence financial reporting quality (Boukbakri *et al*., 2005; Cronqvist & Fahlenbrach, 2008; Dou *et al*., 2013; Boubaker & Sami, 2011) and the results show that block holders significantly influence financial reporting quality. Primarily, these large shareholders influencing rather than selecting firms accounting practices drive the association. As such, a positive relationship between block holders and financial reporting quality might actually improve financial reporting quality and good board

characteristics (Dou, Hope, Thomas, & Zou, 2014). The results are also in tandem with the study of Cho *et al*. (2006) and Hassan (2013) that found positive relationships between block holders spending and the extent of financial statement arguing that financial reporting quality and block holders are complementary strategic tactics that firms use to manage financial public policy pressure.

H2b shows that Big 4 moderate the relationship between director shareholder and financial reporting quality. The result presented for Model 2 in Table 5.11 shows an insignificant relationship between the moderating term DIRESHAREBIG4 and financial reporting quality ($\beta = 0.0754$; $P>0.05$). The results do not support hypothesis H2b that big four auditors moderate the relationship between board directors and financial reporting quality. The directors are incapable of monitoring and overseeing their roles and more interested about their self-interest that could lead to fraudulent activities and lack of transparency in the firms (Rubin & Segal, 2011; Zhang, 2016). The result of the models goes against the agency and stakeholder theory. The relationship posits between director shareholding and financial reporting quality disclosure to be negative as higher director ownership of shares increases the likelihood of agency-principal conflicts (Jensen & Meckling, 1976). A director bearing a larger portion of shares has greater incentives to maximize self-interest gain and less benefit on short-term gains (Fama & Jensen, 1983; Ofoegbu *et al*., 2018).

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H2c shows that Big 4 moderate the relationship between board size and financial reporting quality. The result of Model 2 in Table 5.11 shows an insignificant

relationship between the moderating term BODSIZEBIG4 and financial reporting quality ($\beta = 0.0043$; $P>0.10$), suggesting that big four auditors do not moderate the relationship between board size and financial reporting quality. The results do not support hypothesis H2c that big four auditors moderate the relationship between board size and financial reporting quality. The reasons for failure could be that larger boards are likely to be less effective and likely to have a lower degree of independence and expertise than smaller boards (Uwuigbe & Ajibolade, 2013). In addition, the size of the board decreases the directors' ability to monitor manager to enhance transparency and financial statements (Akhtaruddin *et al*., 2009).

H2d shows that Big 4 moderate the relationship between board independence and financial reporting quality. The result presented in Model 2 from Table 5.11 shows an insignificant relationship between the moderating term BODINDBIG4 and financial reporting quality ($\beta = 0.0563$; $P>0.05$), suggesting that big four auditors do not moderate the relationship between board independence and financial reporting quality. These results are not in support of the prediction in H2d. The reason for not supporting suggests that board independent director has a conflict of interest because they play a dual role of decision-makers and monitor of management, which could lead to an adverse effect on the board (Reddy *et al.,* 2015; Albring *et al.,* 2014). Therefore, hypothesis H2d does not support financial reporting quality in the moderating term. The boards also lack independence, have limited knowledge and experience, and show little concern on financial reporting quality issues (Barako & Tower, 2007). In the Nigerian context, the determination of board independence, the percentage of a non-

executive director to total director is employed. This implies that the board is not totally independent when compared with a developed economy that utilizes the ratio of independence director to total director. Most companies in Nigeria do not disclose their board independence director in the annual report (Che-Ahmad & Osazuwa, 2015).

H2e shows that Big 4 moderate the relationship between independence of the audit committee and financial reporting quality. The result of Model 2 in Table 5.11 shows an insignificant relationship between the moderating term ACINDBIG4 and financial reporting quality (β = -0.0753; P>0.05), suggesting that big four auditors do not moderate the relationship between audit committee independence and financial reporting quality. These results thus were not supporting the prediction in hypothesis H2e that big four auditors negatively moderate the relationship between audit committee independence and financial reporting quality. This signifies that audit committee independence responsibilities are ceremonial and inadequate in financial reporting matter (Madawaki & Amran, 2013). The insignificant relationship occurs because the audit committee according to SEC 2011 corporate governance code stipulates and is not interested in financial reporting quality matters (Zhou *et al.,* 2018). The audit committee independence does not have the power of independence in monitoring and advising the board of directors (Amran & Manf, 2014).

H2f shows that Big 4 moderate the relationship between the diligence of the audit committee and financial reporting quality. The result of Model 2 in Table 5.11 reveals

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a negative significant relationship between the moderating term ADILBIG4 and financial reporting quality (β = -0.0413; P>0.05). The result suggests that the Big 4 auditors negatively moderate the relationship between audit committee diligence and financial reporting quality at 5% level of significance. ACDILBIG4 negatively moderates the relationship between the financial reporting quality as the coefficient decreases from -0.0745 to -0.0081 in the moderating term, and the financial reporting quality weakened. Negatively moderates' means that audit committee diligence reduce financial reporting. It could be argued that in the Nigerian context, the meetings could focus on other matters and lack the co-ordination and cooperation on matters relating to the overall financial reporting quality. Another reason is that what actually counts might not be the number of meetings, but the content of the meetings. In addition, the expertise of the audit committee members could also contribute to how effectively they will carry out their tasks. The result provides support for the prediction in hypothesis H2f that the big four auditor moderates the relationship between audit committee diligence and financial reporting quality. The result is significant and negative and is in line with previous studies. Soliman & Ragab (2014) and AlGhamdi & Ali (2012) posits that audit committee meetings have a significant and negative association with earnings management. Similarly, Metawee (2013) and Lin & Hwang (2010) found a negative significant relationship between audit committee meetings and earnings management. Bedard *et al.* (2004) document an insignificant relationship between numbers of meetings and earning management. Yang & Krishnan (2005) fail to find a significant association between audit committee meetings and financial reporting quality. Lin *et al*. (2006) opined that audit committee meetings frequency is not associated with

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earnings management. Davidson *et al*. (2005) and Baxter and Cotter (2009) asserted that the frequency of the number of audit committee meetings do not seem to reduce earning management and could lead to poor financial reporting quality. In addition, Xie *et al*. (2003) opine a negative relationship between earnings management and audit committee diligence meetings.

H2g shows that Big 4 moderate the relationship between the size of the audit committee and financial reporting quality. The result shown of Model 2 in Table 5.11 revealed an insignificant relationship between the moderating term ACSIZEBIG4 and financial reporting quality (β = -0.0057; $P>0.10$) suggesting that Big 4 auditors do not moderate the relationship between audit committee size and financial reporting quality. These results do not support the prediction in hypothesis H2g that big four auditors do not moderate the relationship between audit committee size and financial reporting quality. The decision with larger audit committee size is laden with compromises that tend to lower financial reporting that is associated with greater agency problem. The size of the board could lead to a decrease in the director ability to monitor the managers and enhanced credibility and transparency in the financial statement (Uwuigbe & Ajibolade, 2013; Haji, 2013).

H2h shows that Big 4 moderate the relationship between the expertise of the audit committee and financial reporting quality. The result of Model 2 in Table 5.11 shows an insignificant relationship between the moderating term ACEXPBIG4 and financial reporting quality (β = 0.0214; $P>0.10$), suggesting that big four auditors do not

moderate the relationship between audit committee expertise and financial reporting quality. The result does not provide support for the prediction in hypothesis H2h that big four auditors moderate the relationship between audit committee expertise and financial reporting quality. The reason is that the audit committee expertise lacks managerial skills and competence of their responsibility due to lack of in-depth and improper training (Times, Moscow, 2014; Omoh & Komalafe, 2015). Additionally, the management could influence the appointment of the audit committee expertise; in case of financial reporting matters, the CEO could influence them to report an adverse financial report against the firms (Dabor & Dabor, 2015; Salaudeen *et al*., 2015; Sarbanes Oxley Act, 2002). In addition, FSIZEBIG4 is significant at 10% level of significance while PROFBIG4 is insignificant with financial reporting quality.

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H3a shows that audit tenure moderates the relationship between block holder and financial reporting quality. The result presented in Model 2 from Table 5.11 shows an insignificant relationship between the moderating term BLOCKSHAREAUDTENU and financial reporting quality ($\beta = 0.0001$; $P>0.05$), suggesting that auditor tenure does not moderate the relationship between block holders and financial reporting quality. These results does not provide support for the prediction in hypothesis H3a that auditor tenure moderates the relationship between block holders and financial reporting quality. The block holder is in negligence of financial reporting quality and after their own gain in the expense of the entity (Chhaochharia *et al*., 2012; Derrien *et al*., 2013). The block holder could use their influence to constrain the CEO from

extracting the importance of financial reporting quality (Adelopo, 2011; Ozkan, 2007; Firth *et al*., 2007).

H3b shows that audit tenure moderates the relationship between director holder and financial reporting quality. The result contained in Model 2 as displayed in Table 5.11 shows an insignificant relationship between the moderating term DIRESHAREAUDTENU and financial reporting quality (β = -0.0766; P>0.10), suggesting that auditor tenure does not moderate the relationship between directors shareholding and financial reporting quality. There is no support for the prediction in hypothesis H3b that auditor tenure negatively moderates the relationship between director's shareholding and financial reporting quality. This implies that the directors are incapable, ineffective of their controlling and overseeing roles, and full of self-interest that led to poor financial reporting quality (Zhou *et al*., 2018; Abidin *et al*., 2009).

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H3c shows that audit tenure moderates the relationship between board size and financial reporting quality. The result presented for Model 2 in Table 5.11 shows an insignificant relationship between the moderating term BODSIZEAUDTENU and financial reporting quality (β = 0.0058; P>0.10), suggesting that auditor tenure does not moderate the relationship between board size and financial reporting quality. These results thus do not to provide support for the prediction in hypothesis H3c that auditor tenure moderates the relationship between board size and financial reporting quality. The larger board size contributes to a lack of organized structure and coordination

problems and lacks independence that could make them inactive in decision making on financial reporting matters (Jensen, 1993, 2010).

H3d shows that audit tenure moderates the relationship between board independence and financial reporting quality. The result in Model 2 from Table 5.11 shows a significant relationship between the moderating term BODINDAUDTENU and financial reporting quality (β = -0.3535 P<0.01), suggesting that auditor tenure negatively moderate the relationship between board independence and financial reporting quality. BODINDAUDTENU negatively moderates the relationship between the financial reporting quality, the coefficient decreases from -0.5873 to -0.1197 in the moderating term, and the financial reporting quality weakened. There is support for hypothesis H3d. The result suggests that audit tenure negatively moderates the relationship between board independence and financial reporting quality at 5% level of significance. The result means that board independence reduce the quality of financial reporting.

The negative result for the financial reporting quality is contradicting with the premise of the agency and stakeholder theory. This stipulates that as a fall out of the separation between ownership and control, management in the event of an opportunity would go after their own benefits at the expense of the desires of shareholders (Jensen & Meckling, 1976). The negative result is also contradicting with a number of prior studies (Abidin *et al.,* 2009; Uwuigbe & Ajibolade, 2013; Herda *et al.*, 2013). Zhou *et al.* (2018) also document that firms with large-sized boards have better performance,

while those independent boards are associated with poor performance. One plausible explanation is that a more independent board may pay more attention to monitoring management to the neglect of its advisory role. This explanation is consistent with an emerging finance theory on the role of boards, which predicts that board independence is not always in the best interest of stockholders, especially where the board's advisory role is more important than its monitoring role.

Furthermore, the insignificant relationship can be explained by the hegemony theory that argues that the independence of the board is incapable of fulfilling the overseeing role to protect shareholders (Herman, 1981; Kota & Tomar, 2010). Herman (1981) posit that the importance of the outside directors is basically to advise, maintain and build business relationships with outsiders. The selection of non-executive directors, the public perception of the candidate is the primary consideration and that the CEOs can dominate the director appointment process and control the board. Another criticism of the non-executive directors that can also be applicable to the Nigerian case is that these directors mostly have no time for company business as they are usually busy with other commitments and hence adversely affect firm financial reporting quality (McIntyre *et al.,* 2007).

H3e shows that audit tenure moderates the relationship between the independence of the audit committee and financial reporting quality. The result in Model 2 from Table 5.11 shows the relationship between the moderating terms ACINDAUDTENU and financial reporting quality (β= 0.0583, P>0.05). The result fails to support hypothesis

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H3e. The empirical result suggests that auditor tenure fails to moderates the relationship between audit committee independence and financial reporting quality negatively. This implies that audit committee independence, as SEC code of corporate governance stipulated by CAMA 2004, might not be interested in financial reporting matters rather they are interested in self-gain as against mandatory financial matters (Uwuigbe & Ajibolde, 2013). The audit committee independence lacks the independence to enable making right judgment and thus leading to financial statement fraud on financial reporting issues (Othman *et al.,* 2014). It is imperative to appoint the audit committee, independently of the management, especially where the CEO dominates in the financial reporting matters.

H3f shows that auditor tenure moderates the relationship between the diligence of the audit committee and financial reporting quality. The result contained in Model 2 of Table 5.11 shows a significant relationship between the moderating term ADILAUDTENU and financial reporting quality (β = -0.0184; $P<0.10$), suggesting that auditor tenure negatively moderates the relationship between audit committee diligence and financial reporting quality at 10% level of significance. ADILAUDTENU negatively moderates the relationship between the financial reporting quality, the coefficient decreases from -0.0366 to -0.0001 in the moderating term, and the financial reporting quality weakened. Hypothesis H3f support that auditor tenure moderates the relationship between audit committee diligence and financial reporting quality.

The result is negative and significant at 10% level with the interaction on financial reporting quality. Baxter and Cotter (2009) posit that the frequency of meeting is not important in achieving higher financial reporting quality. The lowering of frequency of meetings of the board has contributed to the higher liberation of the board of directors that exhibits them in opportunistic behavior that resulted to agency conflict in the firms (Al-Ghamdi, 2012). Abbot *et al*. (2004) and Davidson *et al.* (2005) also documented a negative relationship between audit committee diligence and financial reporting quality. In the Nigerian context, the absences of the meeting have resulted in the negative association of the manager. This has led to the collapse of many companies that could affect the investment efficiency of Nigeria.

H3g shows that audit tenure moderates the relationship between the size of the audit committee and financial reporting quality. The result of Model 2 in Table 5.11 shows a significant relationship between the moderating terms ACSIZEAUDTENU and financial reporting quality (β= -0.0213, P<0.5) at 1% level of significance. ACSIZEAUDTENU negatively moderates the relationship between the financial reporting quality and the coefficient decreases from 0.0341 to -0.0085 in the moderating term. Hypothesis H3g support that auditor tenure negatively moderates the relationship between audit committee size and financial reporting quality. The result is significantly negative, the reasons being that the size of the audit committee is very large, and thereby loses coordination and independence to monitor the board. (Uwuigbe & Ajibolade, 2013). The audit committee is lacking expertise and the larger size is laden with compromise and no consensus in agreement that tend to poor

financial reporting quality that is associated with agency problem (Haji, 2013). The larger the size of the audit committee, the lower the competencies of the board in taking decisions in financial matters (Dabor & Dabor, 2015).

H3h shows that audit tenure, moderate the relationship between the expertise of the audit committee and financial reporting quality. The result in Model 2 from Table 5.11 shows a positive significant relationship between the moderating term ACEXPAUDTENU and financial reporting quality at ($\beta = 0.0497$ $P<0.01$) at 1% level of significance. ACEXPAUDTENU positively moderates the relationship between the financial reporting quality and the coefficient increases from 0.0339 to 0.0655. The hypothesis H3h is supported which states that auditor tenure moderates the relationship between audit committee expertise and financial reporting quality. The expertise could improve financial reporting quality through the managerial skills and competence of their responsibilities. Cohen *et al*. (2013) opine that audit committee expertise has the ability to detect frauds in the accounting information system. The effectiveness and efficiency of the audit committee expertise enable them to oversee and monitor the financial reporting process (Quighua *et al*., 2012). The audit committee expertise possesses the ability to coordinates the firms internal and external control system and the external auditors (Bedard & Gendron, 2010). The audit committee is capable of using their expertise to evaluate the non-audit services and add value to the firm without compromising audit independence (Naiker *et al*., 2013). Additionally, FSIZEAUDTENU is negatively significant at 10% level of significance and PROFAUDTENU is insignificant.

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5.9 Chapter Summary

In this chapter, the obtained secondary data subjected to analyses comprising the descriptive statistics; correlation analysis, diagnostic tests, panel regression analysis are presented. The results are interpreted with a view to correlating the outcomes with the propositions.

Twenty- four (24) hypotheses were tested with the help of panel data. Out of these, only nine (9) were significant in the analysis. The statistical results provide empirical support for a positive significant direct relationship between audit committee expertise, audit committee size, board independence, and the financial reporting quality. In addition, the results provide support for a moderating effect of Big 4-audit firm on the relationship block shareholding, audit committee diligence and financial reporting quality. The auditor tenure moderates the relationship between board independence, audit committee diligence, audit committee size and audit committee expertise and financial reporting quality, thereby enhancing the financial statement, reducing frauds, and accounting misstatements of the firms.

This study has been able to provide evidence for the main research objective to show the relationship of board attributes and audit quality influence financial reporting quality in Nigeria, considering the country specifies with poor financial reporting from the annual report, agency problem, weak enforcement, and compliance mechanism. The audit quality as a moderator introduced into the study, however, shows that it is an effective mechanism for improving higher financial reporting in listed companies

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in Nigeria. As for the other variables, the theoretical support for them is less than convincing and it is no surprise that previous studies have shown that their relationships with the extent of financial statements to be inconsistent.

Finally, the next chapter provides the conclusion and recommendations of the study based on the result of the hypotheses. It also gives the policy implications and the signpost for future studies.

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CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

In the course of this chapter, a detailed summary of the study is presented, highlighting the issue and objectives of the study. Next, a detailed discussion of the findings of the study is given, as well as the implication of the study for theory and practice. Following this is the limitation of the study, suggestions for future research and conclusion.

6.2 Highlights of the Study

The board and its committees have become important devices in corporate governance given the fact that they both play important roles in ensuring high-quality financial reporting. In addition, the roles of Big 4 and audit tenure of auditors have become vital due to their activities in the promotion of good financial reporting. Therefore, efforts to identify what constitutes as "high-quality financial reporting" continues unabated and that is the motive of this research. The motivation of the study is the poor financial reporting quality as found in the annual reports of companies and weak enforcement and compliance on quoted companies in the Nigerian Stock Exchange that may render its corporate governance system ineffective.

It is argued that board characteristics and financial reporting quality are internal mechanisms for mitigating the agency conflict. The conflict can exist between

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shareholders and managers in large complex companies because of the separation of ownership and control (Jensen & Meckling, 1976). It is further argued that investors are willing to make their investments when there is credible financial reporting that would aid them in making a good economic decision (Cohen *et al.,* 2013; Norwani *et al.,* 2011). For board characteristics to mitigate the agency conflict it has to be credible, reliable and financial reporting quality optimally contracted. The effectiveness of the board characteristics practice and financial reporting quality in mitigating the agency conflict remains an issue among company stakeholders whether from developing or emerging economies. This study extends this research by examining the influence of Big 4 and audit tenure on financial reporting quality. The study considers Nigeria, a country that is quite different from developed markets on financial reporting adjudged to have poor financial reporting quality.

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Specifically, weak board characteristics practice in companies have shown to be associated with greater agency problems (Jensen & Meckling, 1976). It argued that poor financial reporting is exacerbating the agency conflict (Cohen *et al.,* 2004). Nonetheless, past studies have found that board characteristics have an influence on the financial reporting quality practice of companies even though with conflicting results (Bhattacharyya, 2012; Cronqvist & Fahlenbrach, 2009; Dou *et al*., 2013; Hassan, 2013; Klai & Omri, 2011; Nwonyuku, 2012). This study extends this research by investigating the influence of board characteristics practice on financial reporting quality among companies in Nigeria. The country is chosen due to the difference from

the developed markets on financial reporting quality, which extends the study by introducing the moderating effect of Big 4 and audit tenure.

The data for the study were manually extracted from the annual report of non-financial companies from 2011-2015 (comprising 457 company year observations). The main objective is the concern of the moderating effect of audit tenure and Big 4 on the relationships among board characteristics and financial reporting quality. The results reveal that there is a positive interaction between Audit committee expertise audit tenure interaction (ACEXPAUDTENU) and financial reporting quality, and also Block shareholding big 4 interaction (BLOCKSHAREBIG4) and financial reporting quality. It argued that board attributes structures are determinants of high financial reporting quality (Dou *et al.,* 2013; Firoozi, Magnan & Fortin, 2016). An understanding of these mechanisms will assist in assessing their effectiveness in monitoring management actions.

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As a recap, the three main objectives are restated. The first is to investigate the relationship between board characteristics and financial reporting quality in Nigeria stock exchange. The second is to examine whether Big 4 moderate the relationship between board characteristics and financial reporting in Nigeria stock exchange. Whereas, the third considers whether auditor tenure moderate the relationship between board characteristics and financial reporting in Nigeria stock exchange. The first group of hypotheses developed examine the influence of board characteristics on financial reporting quality with eight hypotheses. For the second group, eight hypotheses

examined the moderating effect of Big 4 while the third group involves eight hypotheses examining the moderating effect of audit tenure on the relationships among board characteristics and financial reporting quality.

In line with the objectives of the study, empirical answers were set out to answer the three major research questions that are restated: 1 What is the effect of board characteristic have a relationship with financial quality in Nigeria Stock Exchange? 2 What is the effect of auditor tenure moderate the relationship between board characteristics and financial reporting quality in Nigeria Stock Exchange? 3 What is the effect of Big 4 auditor moderate the relationship between board characteristics and financial reporting quality in Nigeria Stock Exchange?

For the first research question, a multivariate analysis conducted to provide the answer. The result shows that there is a negative and significant relationship between board independence (BODIND) and financial reporting quality at the 5% level of significance. The result suggests that the presence of board independence in the Nigeria firm significantly decreases the quality of financial reporting. The result, therefore, fail to provides support for H1d. Additionally; the result indicates that the relationship between audit committee size (ACSIZE) and financial reporting quality is positive and significant at the 1% level of significance. The result also suggests that the size of the audit committee significantly increases the quality of financial reporting. The result, therefore, provides support for H1g. The implication of this finding is that the audit committee size in Nigeria fulfilling their roles in reducing the agency

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conflicts between the managers and the shareholders (Jensen & Meckling, 1976). The audit committee size improves the quality of financial reporting (Kusnadi *et al*., 2016). In addition, the result documents a positive and significant association between audit committee expertise (ACEXP) and financial reporting quality at 5% level of significance. The result, therefore, provides support for H1h. Audit committee expertise has the ability to effectively and efficiently monitor and oversee the financial reporting process (Cohen *et al*., 2013). The expertise has the supervisory influence on the financial statement and to control, check the errors in the financial misstatement thereby enhancing the financial reporting quality (Abernathy *et al*., 2014).

For the second research question, the result indicates that Block shareholding big 4 interaction (BLOCKSHAREBIG4) positively and significantly moderates the relationship between block shareholders and financial reporting quality. The result provides support for the prediction in hypothesis H2a. It is arguing that block shareholders are good determinants of the high financial reporting quality (Dou *et al*., 2013; Bello, 2013). An understanding of these mechanisms will assist their effectiveness in monitoring financial statements. In addition, Audit committee diligence big 4 interaction (ACDILBIG4) negatively and significantly moderates the relationship between and financial reporting quality. The result provides support for the prediction in hypothesis H2f. This implies that the board meeting could reduce financial reporting quality. The prompt and regular meetings could act as check and balances for the effectiveness in overseeing and controlling the financial process but in the case of Nigeria, it contradicts it.

In addition, Board independence audit tenure interaction (BODINDAUDTENU) is negative and significant relationship with financial reporting quality. The result provides support for the prediction in hypothesis H3d. This implies that the board is not independent and could increase the problem of asymmetry of information between the manager and the stakeholder, which is contradicts Ofoegbu *et al*. (2018) and Kantudu and Samaila (2015). Additionally, Audit committee diligence audit tenure interaction (ACDILAUDTENU) negatively significantly moderates the relationship between financial reporting quality. This result provides support for the prediction in hypothesis H3f. This signifies that frequent board meeting could not have the eagerness in addressing organizational issues that could lead to crumbling the financial process and companies in Nigeria. The Audit committee size audit tenure interaction (ACSIZEAUDTENU) is negative and significantly moderate the relationship between financial reporting quality. The result provides support for the prediction in hypothesis H3g. This connotes that the size of the audit committee could not coordinate the firms, reduce financial reporting quality and increase the problem of information asymmetry between the managers and the stakeholders. Audit committee expertise audit tenure interaction (ACEXPAUDTENU) is also positively significant and moderates the relationship between financial reporting quality. The result, therefore, provides support for H3h. The empirical result ascertained that the expertise possesses the ability to monitor and control the management and financial process. The summary of the results of the tested hypotheses in Table 6.1.

Table 6.1 Summary of Hypotheses Testing

Variables	Objective	Hypothesis	Expected sign	P-values/ sign	Decision
BLOCKSHARE		H1a	+	P<0.01(+)	Not Supported
DIRESHARE		H1b	+	P<0.01(+)	Not Supported
BODSIZE		H1c	+	P>0.10	Not Supported
BODIND	1	H1d	-	P>0.10	Supported
ACIND		H1e	+	P>0.10	Not Supported
ACDIL		H1f	+	P<0.05(+)	Not Supported
ACSIZE		H1g	+	P<0.01 (+)	Supported
ACEXP		H1h	+	P>0.10)	Supported
BLOCKSHAREBIG4		H2a	?	P>0.10	Supported
DIRESHAREBIG4		H2b	?	P>0.10	Not Supported
BODSIZEBIG4		H2c	?	P>0.10	Not Supported
BODINDBIG4	2	H3d	?	P<0.10(-)	Not Supported
ACINDBIG4		H2e	?	P>0.10	Not Supported
ADILBIG4		H2f	?	P<0.,10	Supported
ACSIZEBIG4		H2g	?	P>0.10	Not Supported
ACEXPBIG4		H2h	?	?	No Supported
BLOCKSHAREAUDTEN		H3a	?	P>0.10	Not Supported
DIREAUDTENU		H3b	?	P>0.10	Not Supported
BODSIZEAUDTENU		H3c	?	P>0.10	Not Supported
BODINDAUDTENU	3	H3d	?	P<0.10	Supported
ACINDAUDTENU		H3e	?	P>0.10	Not Supported
ADILAUDTENU		H3f	?	P>0.10	Supported
ACSIZEAUDTENU		H3g	?	P>0.10	Supported
ACEXPAUDTENU		H3h	?	P>0.10	Supported

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6.3 Theoretical Implications

This study investigates the interaction between audit tenure and Big 4 and financial reporting quality. In that respect, this research contributes to the extant literature by providing further evidence on the attributes of audit tenure and Big 4, which can enhance its monitoring effectiveness. The findings of the study have several implications for the theoretical improvement of financial reporting quality. The current study utilized the agency theory and stakeholder’s theory to examine the relationship between board characteristics and financial reporting quality. Additionally, there is an interaction of audit tenure between board independence, audit committee diligence,

audit committee size, audit committee expertise and financial reporting quality, which are in tandem with the agency and stakeholder theories. The result showed that the agency and stakeholders' theories, as used in developed and developing countries are applicable to studying financial reporting quality in Nigeria.

The finding of this current study provide supports for the agency theory in the interaction effects. Block shareholding big 4 interaction (BLOCKSHAREBIG4) positively significantly moderate the relationship between financial reporting quality. The block shareholders are able maximize the shareholders wealth by providing accountable financial statement to the owners and the public (Dou *et al*., 2013). In addition, Audit committee expertise audit tenure interaction (ACEXPAUDTENU) have a positive significant relationship with financial reporting quality. From the perspective of stakeholders' theory, the audit committee expertise are viable in controlling the internal control system, management, auditor, and the employees to enhance high financial reporting quality (Cohen *et al*., 2013). Furthermore, from the direct relationship in helping to explain the significant relationship between the audit committee size characteristics and financial reporting quality was the agency theory, which argues that the size board of directors is capable of fulfilling the monitoring role of management (Herman, 1981; Kota & Tomar, 2010; Tricker & Tricker, 2015). In addition, the stakeholder theory possesses the ability to explain the relationship between audit committee expertise and financial reporting quality in the firms (Cohen *et al*., 2013). The stakeholder theory, advocates that the audit committee expertise is

capable of checking the irregularities in the internal control, examining the external audit and detecting material misstatements to enhance financial reporting quality.

The study, therefore, used agency and stakeholder theories to provide the explanation of how firms react to the pressures asserted by stakeholders to engage in financial reporting quality. In addition, supporting the agency and stakeholder theories, the study found that the Big 4 firm moderates audit committee diligence negatively and significantly, thus reducing financial reporting quality. This means that board meetings could not address organizational issues and provide effective communication skills that justify the board mechanisms of transparency in term of mandatory financial statement that contradict the stakeholders' theory (Nkundabanyanga *et al*., 2013). Additionally, the agency and stakeholder theories found that the interaction of the board independence and auditor tenure is negatively significant with financial reporting quality. This implies that the board is ineffective and inefficient in their responsibilities to enhance financial reporting quality, which contradicts Ofoebgu *et al.* (2018).

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From the agency theory perspective, the presence of board characteristics expected to reduce the incidence of irregularities in financial reporting. The assumptions of these theories could enable the board mechanism give their full commitment to fulfill their duties diligently. The agency theory provides a reasonable ground for the practice of financial reporting quality by companies (Buniamin, 2010; Fama & Jensen, 1983). It requires the practice of the companies to be in accordance with the values obtainable

in society (Milne & Patten, 2002). The company has to act spontaneously and align its focus with the values of the environment in which it operates.

The agency theory posits that the separation of ownership from the control of the organization encourages managers to maximize their wants and pursue interests contrary to the desires of the owners (Jensen & Meckling, 1976). In order to prevent this, board initiates checks and balances to keep the managers under control. The study findings reveal that board directors' independence was negatively significant with financial reporting quality which could increase the problem of information asymmetry that exists between management and shareholders, which is contradictory to agency theory (Uwuigbe & Ajibolde, 2013; Fauzi & Loche, 2012).

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The empirical result ascertained that there is a negative and insignificant relationship between director shareholder (DIRESHARE) and financial reporting quality. The results fail to support the agency theory that stipulates that the role of directors are complacent in their monitoring and oversight responsibilities. In addition, the result shows an insignificant relationship between audit committee diligence (ACDIL) and financial reporting quality. This indicates that the numbers of meetings in the company significantly decreases the quality of financial reporting. The insignificant result of the audit committee diligence portrays the negligence of the board in attending a regular meeting that would have an adverse influence on financial reporting quality. The result, therefore, fails to support the agency and stakeholder theories. The board of

director lowered the frequency of meetings, which have an adverse effect on financial reporting quality that contradicts the agency theory (Jensen & Meckling, 1976).

The board size shows an insignificant relationship with financial reporting quality. This does not provide support for the agency and stakeholder theories that based act as the cohesive agent that bond the interest of stakeholders to that of the financial reporting quality (Jensen & Meckling, 1976). It does not also support the agency theory that board size as representatives of the shareholders will adequately monitor the manager and prevent him from exhibiting opportunistic behavior (Fama & Jensen, 1983).

The result shows an insignificant relationship between the audit committee independence and financial reporting quality. This does not support the postulation of the agency theory that independent audit committee boards remain effective while monitoring managerial actions (Fama & Jensen, 1983). This could be an indication of exercise power influence over the board of directors in the Nigeria economy. Therefore, there is no justification for an independent audit committee as they are associated with lower credible financial reporting quality. The evidence of the executive power is in operation in the Nigerian context. For instance, the CEO could influence the appointment of the audit committee board independence since their appointment linked with the management when financial reporting matters arise on the board. Thus, they cannot be independent and effective in their obligations to the firms (Kota &Tomar, 2010).

Lastly, the study also examined the moderating effects of Big 4 and audit tenure on the relationship between board characteristics and financial reporting quality. The findings provide support for the agency and stakeholder theories as moderating effects of Big 4 on the relationship between block shareholders and financial reporting quality and the moderating effects the auditor tenure on the relationship between audit committee expertise and financial reporting quality with the stakeholder theory. Overall, the theoretical validity provided by the stakeholder and agency theories can explain financial reporting quality practices in a developing country such as Nigeria (Haynes & Hillman, 2010; Tricker & Tricker, 2015).

6.4 Practical Implications

The result has several attendant implications for regulators of Nigeria's capital markets. The regulatory authorities have the responsibilities for ensuring adherence to good corporate governance practice. Security and Exchange Commission of Nigeria (SECN) and other regulatory authorities will find the results useful in drawing up future corporate governance regulatory reforms and financial reporting quality matters. The research contributes significantly to global knowledge by using data from an emerging capital markets and unstable corporate governance with lack of compliance and enforcement of standards. The study widens the scope of corporate financial reporting practices and board firm characteristics debates around the world.

The findings should encourage the financial analysts, government and the public at large to begin to show interest in financial reporting quality matters. The need for providing a credible financial statement that could assist investors in the good economic decision-making process. The direct relationship result reveals that audit committee size and audit committee expertise are significantly positive regarding financial reporting quality. In addition, in the interaction variables, the results reported that Block shareholding Big 4 interaction (BLOCKSHAREBIG4) and Audit committee expertise audit tenure interaction (ACEXPAUDTENU) are also positive and significant with financial reporting quality. This could make the public to be aware of the importance of financial reporting quality and management of companies. Specifically, this will sensitize the investors and put company managers on their watch.

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The current study investigated the relationship between the board characteristics and financial reporting quality. The listed companies and shareholders in Nigeria gained in a number of ways as it shows the significance of the board characteristics in Nigeria. For the shareholders, the results of the study show that the audit committee size and audit committee expertise actively protects the wealth of the shareholders and provide high financial reporting quality. It shows that the shareholders' associations and activists know their company director.

The board of director will find the result of immense value as it provides them with evidence of improvement in performing their monitoring responsibilities. The audit

committee size and audit committee expertise should be inclined to mind their reputation and show that they are key representatives of the shareholders.

The study results should encourage empirical research on the board characteristics and financial reporting quality practice in Nigeria. This could uncover the likely reasons why the size of the board is not aligning with the shareholder's interest. There is also a need to examine the board size to determine the identity of the controlling shareholders. This is because ROSC (2011) reports that there is a lack of monitoring and transparent financial statement of stakeholders.

Under a low investor protection rights environment with weak enforcement and compliance mechanisms, the board mechanism model may not be sufficiently suitable for restraining the size of board director from monitoring the financial reporting quality matters. The efforts of SECN and other relevant agencies in strengthening the corporate governance practice in Nigeria do not seem to be yielding the desired expectations as regards financial reporting quality issues due lack of enforcement and compliance of standards. The regulatory authorities in Nigeria should design a corporate governance model that will adequately address the peculiarity of Nigeria's socio-economic environment. The size of the board does not show any evidence of effective monitoring of management as regards financial reporting quality matters. This suggests that the corporate governance codes have not been effective in constraining the board of directors from extracting higher financial reporting quality.

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The issue of inadequate information financial statements on financial reporting quality by companies in Nigeria needs both SECN and NSE attention.

According to ASX (2014), investors are willing to invest in properly governed companies that provide credible financial reports that are in line with the financial reporting quality standard. The finding, therefore, could interest them as it provides high-quality financial reporting process to enable them to make good economic decisions. Since, high financial reporting quality could increase investor confidence, protect minority shareholders, increase investment efficiency and aid good decision making.

6.5 Limitation of the Study

This study has shown that the board directors is associated with insignificant relationship on financial reporting quality. Thus, other board characteristics indicate weakness in constraining the effect of the credible financial statement from extracting high financial reporting quality (Kao & Chen, 2004). Even though there have been various contributions, it becomes imperative to state that there are also certain limitations that may engage future researchers. This section, therefore, presents the limitations of the study into consideration when interpreting the findings and shows potential areas that require further examination.

First, the study focused only on non-financial companies listed on the Nigerian Stock Exchange (NSE). Further, there is a need for caution, as the results of short panel

cannot be generalized for other Sub-Saharan African countries because of differences in codes, legislation, and economic characteristics.

This study focused on the financial statement in the annual reports only. There are other sources of information available such as corporate press releases, newspapers, government publications, etc. If companies have somehow released some information through these various channels of communication, this will affect the amount of information in the annual reports if not disclose. If the information required by law, the company may be obliged to disclose it again in the annual reports. However, if the information is voluntary in nature, which is highly effective in a relationship-based economy, it may be disclosed depending on the discretion of the management, and this could have adverse effect on financial reporting quality.

This study does not consider the board characteristics such as age, gender diversity, educational experience and social network, which have an influence on financial reporting quality in past studies. In addition, no attempt has been made to separate block holders' ownership into various components such as institutional block holders, directors' block holders, and foreign block holders. Inability to do this separation has the potential of affecting the generalization as block holders have different investment objectives that in turn affect their disposition towards financial reporting quality issues.

In addition, there is no distinction made in the outside regarding director variable as to whether the directors can be grouped vis-a-vis gray directors, independent directors,

or company’s former employee etc. This is because some of the companies do not provide detailed profiles of their directors to enable such data. Identifying directors in such categories could have a different influence on financial reporting quality (Core, Holthausen & Larcker, 1999).

This current study utilized short panel data in analyzing the data. In addition, the study in Nigeria due to weak enforcement and compliance of standard and poor financial reporting from the annual report, caution should be taken when interpreting the result across other data from other sub saharan regions. This could lead to crumble of firms and loss of investors’ confidence on financial reports.

6.6 Suggestions for Future Research

Given the limitations of the current study as highlighted in the preceding section, the following are suggestions for future research direction.

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First, future research should consider both financial and non-financial companies to widen the scope of the study and have comprehensive and understanding results. Both financial and non-financial firms could produce a better result when they are combined by increasing the sample sizes of the firms could produce a better results. Instead of using the annual reports as the main unit of analysis, future researchers may also choose other sources of information to capture the levels of financial statement by companies such as interim reports, corporate press releases, prospectuses or newspapers.

Secondly, the influence of board characteristics on financial reporting quality is examined. Future studies can examine the board characteristics such as multiple directorships, foreign ownership, educational qualification, and gender diversity. Thirdly, no attempt was made to separate block shareholders into various groups. Future research can take into consideration by examining separately institutional block holders, directors', short-term block holders, long-term block holders, and foreign block holders. Likewise, the regulatory authority in Nigeria should ensure companies listed in NSE should disclose the director on the board to enable users of financial statements differentiate the gray director from the independent director in appointment of directors.

Fourthly, short panel data employed, and like drawing, strong causal inferences with caution with other sub-Saharan region, future researchers might consider expanding the data by adopting a longitudinal panel design. Lastly, future research may choose to conduct a comparative analysis between Nigeria and another developing nation, or with a developed nation. The future study could replicate the numbers of years, for example, ten to fifteen years' period in order to discover changes in the financial reporting quality of a particular country.

6.7 Conclusion

The main objective of the study was to investigate the moderating effect of audit tenure and Big 4 on the association between board characteristics and financial reporting quality. In addition, to determine the relationship between board characteristics and

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financial reporting quality of non-financial firms in Nigeria. To the researcher's knowledge, the current study is among the pioneer studies in Nigeria to examine the association of board characteristics variables and financial reporting quality. The study provides strong support that audit committee size, and audit committee expertise improve financial reporting quality. There is a positive significant relationship between Audit tenure (AUDTENU) audit committee expertise, Big 4 block holders and financial reporting quality, to enhance and protect investors' confidence. Additionally, there is a negative significant interaction of auditor tenure relationship between board independence, audit committee diligence, audit committee size, and the financial reporting quality.

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The study provides evidence that the independence of the board and board size do not show a significant association with financial reporting quality. The implication of the findings is that the board independence and board size are not effective in monitoring and overseeing the executives and aligning their interest with the shareholders.

Consequently, there is a huge challenge on the part of the regulatory authorities in Nigeria to evolve future corporate governance reforms that could consider the country's peculiar characteristics. There should be capacity by building regulatory authorities to enable them to cope with the challenges of enforcing financial statement standards. It is highly suggested that financial reporting quality matters need adequate attention in future corporate governance reforms as to improve financial reporting quality. In addition, the incorporation into laws, the Listing Requirements of the NSE

is advised. It hoped that these suggested recommendations assist in strengthening the country's corporate governance system and financial reporting quality.

In conclusion, nine (9) from twenty-four (24) hypotheses are supported. The results confirm that several factors explain the willingness by companies to engage in financial reporting quality and that management of companies need to key into these factors to improve their current poor state of financial reporting quality, in order to remain competitive and satisfy the aspirations of stakeholders.

The direct relationship between audit committee size and financial reporting quality was positive and significant. While in the interaction variable audit committee, audit tenure and financial reporting quality the result reveal a negative significant association with financial reporting quality. Specifically, the interaction of audit tenure weakening the positive effects of audit committee size is due to the result being significantly negative. The reasons being that the size of the audit committee is very large and thereby loses coordination and independence to monitor the board (Uwuigbe & Ajibolade, 2013). Moreover, the audit committee is lacking expertise and the larger size is laden with compromise and no consensus in agreement that tend to poor financial reporting quality that is associated with agency problem (Haji, 2013). It is of general knowledge that the larger the size of the audit committee, the lower the competencies of the board in taking decisions in financial matters (Dabor & Dabor, 2015).

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The direct association between audit committee diligence and financial reporting quality was insignificant while the interaction variable audit committee diligence, audit tenure is negatively significant with financial reporting quality. Likewise, the audit tenure weakens the effects of audit committee diligence through the significantly negative result at 10% level with the interaction on financial reporting quality. The lowering of frequency of meetings of the board has contributed to the higher liberation of the board of directors that exhibits them in opportunistic behavior that resulted to agency conflict in the firms. Baxter and Cotter (2009) posit that the frequency of meeting is not important in achieving higher financial reporting quality. (Al-Ghamdi, 2012). Abbot *et al*. (2004) and Davidson *et al.* (2005) also documents a negative relationship between audit committee diligence and financial reporting quality. In the Nigeria context, the absences of the meeting have resulted in the negative association of the manager. This has led to the collapse of many companies that could affect the investment efficiency of Nigeria.

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The direct relationship between board independence and financial reporting quality was negatively significant. The result of the interaction variable shows that board independence, audit tenure with financial reporting quality is negatively significant. It was also observed in the study that the moderating effect of audit tenure weakens the negative effect of board independence with the significantly negative result on the financial reporting quality. The findings is contradicting with the premise of the agency and stakeholder theory. This stipulates that as a fall out of the separation between ownership and control, management in the event of an opportunity would go

after their own benefits at the expense of the desires of shareholders (Jensen & Meckling, 1976). The negative result is also contradicting with a number of prior studies (Abidin *et al.,* 2009; Uwuigbe & Ajibolade, 2013; Herda *et al*., 2013). Zhou *et al.* (2018) also document that firms with large-sized boards have better performance, while those independent boards are associated with poor performance. One plausible explanation is that a more independent board may pay more attention to monitoring management to the neglect of its advisory role. This explanation is consistent with an emerging investment value on the role of boards, which predicts that board independence is not always in the best interest of stockholders, especially where the board's advisory role is more important than its monitoring role.

The result of the direct association between audit committee diligence and financial reporting quality was insignificant while in the interaction variable audit committee, big 4 and financial reporting quality was negatively significant. Considering the moderating effects of Big 4, the variable weakens the effect of the financial reporting quality. The significantly negative results between audit committee diligence and financial reporting quality is consistent with (Soloman & Ragab, 2014; Metawee, 2013; AlGhamdi & Ali, 2012). For instance, negatively moderates' means that audit committee diligence reduce financial reporting. It could be argued that in the Nigerian context, the meetings could focus on other matters and lack the co-ordination and cooperation on matters relating to the overall financial reporting quality. Another reason is that what actually counts might not be the number of meetings, but the

content of the meetings. In addition, the expertise of the audit committee members could also contribute to how effectively they will carry out their tasks.

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Appendix A
Financial Reporting Quality Disclosure Index

An index of disclosure is a research instrument that used to measure the level of disclosure of information in annual reports. Mandatory financial reporting quality index for disclosure of listed companies on the Nigerian Stock Exchange covering the period of 2011-2015 according to the Statement of Accounting Standard (SAS) and International Financial Reporting Standard (IFRS)

S/n	Item of Information	Source/ Compliance Requirement	Possible Score	Maximum Score
1	Total Current Assets	SAS/ IFRS	1/0	1
2	Trade debts (Amount)	SAS/ IFRS	1/0	1
3	Cash and bank balance	SAS/IFRS	1/0	1
4	Total current liabilities	SAS/IFRS	1/0	1
5	Trade Creditors	SAS/ IFRS	1/0	1
6	No, & amount of authorized share capital	SAS/ IFRS	1/0	1
7	No and Amount of Ordinary Share Debentures Issued	SAS/ IFRS	1/0	1
8	Breakdown into paid and unpaid portions	SAS/IFRS	1/0	1
9	Amount of operating expenses	SAS/ IFRS	1/0	1
10	Breaking of operating expenses	SAS/ IFRS	1/0	1
11	Directors' remuneration	SAS/ IFRS	1/0	1
12	Disclosure of accounting policies	SAS/ IFRS	1/0	1
13	Notes to financial statements	SAS/ IFRS	1/0	1
14	Information in directors' report; List of directors	SAS/ IFRS	1/0	1
15	directors' shareholdings	SAS/ IFRS	1/0	1
16	Directors benefit in contracts	SAS/ IFRS	1/0	1
17	Arrangement for directors to acquire shares	SAS/ IFRS	1/0	1
18	Circumstances that could affect amounts in account to be misleading	SAS/ IFRS	1/0	1
19	Bad debt provision	SAS/ IFRS	1/0	1
20	Ascertainment of current assets	SAS/ IFRS	1/0	1
21	Valuation method of assets and liabilities	SAS/ IFRS	1/0	1
22	Assets charged to secure liabilities	SAS/ IFRS	1/0	1
23	Contingent liabilities	SAS/ IFRS	1/0	1
24	Unusual events	SAS/IFRS	1/0	1
25	Truthfulness and fairness of account	SAS/ IFRS	1/0	1

26	Material transfer to and from reserves/ provisions	SAS IFRS	1/0	1
27	Statutory declaration a to the correctness of account	SAS/ IFRS	1/0	1
28	Location of auditor's report	SAS/IFRS	1/0	1
29	Form of auditor's report (AR)	SAS/ IFRS	1/0	1
30	Expression of opinion I AR	SAS/ IFRS	1/0	1
31	Amount for balance sheet items for the previous year	SAS/ IFRS	1/0	1
32	Amount for profit and loss the previous year	SAS/ IFRS	1/0	1

Appendix B

Variable Definition

FRQ	Financial reporting quality
BLOCKSHARE	Block shareholding
DIRESHARE	Director shareholding
BODSIZE	Board size
BODIND	Board independence
ACIND	Audit Committee Independence
ACDIL	Audit committee diligence
ACSIZE	Audit committee size
ACEXP	Audit committee expertise
BIG4	Big four auditor
AUDTENU	Auditor tenure
FSIZE	Firm size
PROF	Profitability
BLOCKSHARE*BIG4	Block shareholding Big 4 interaction
DIRESHARE*BIG4	Director shareholding Big 4 interaction
BODSIZE*BIG4	Board size big4 interaction
BODIND*BIG4	Board independence Big 4 interaction
ACIND*BIG4	Audit committee independence Big 4 interaction
ACSIZE*BIG4	Audit committee size Big 4 interaction
ACEXP*BIG4	Audit committee expertise Big 4 interaction
FSIZE*BIG4	Firm size interaction Big 4
PROF*BIG4	Profitability interaction big4
BLOCKSHARE*AUDTENU	Block shareholding auditor tenure interaction
DIRESHARE*AUDTENU	Director shareholding auditor tenure interaction
BODSIZE*AUDTENU	Board size auditor tenure interaction
BODIND*AUDTENU	Board independence auditor tenure interaction
ACIND*AUDTENU	Audit committee independence auditor tenure interaction
ADIL*AUDTENU	Audit committee diligence auditor tenure interaction
ACSIZE*AUDTENU	Audit committee size auditor tenure interaction
ACEXP*AUDTENU	Audit committee expertise auditor tenure interaction
FSIZE*AUDTENU	Firm size interaction auditor tenure
PROF*AUDTENU	Profitability interaction auditor tenure

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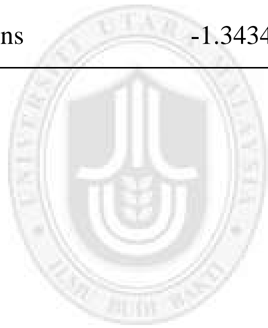
Appendix C

Result of Model l

FRQ	Coef.	Std. Err.	T	P>t	[95% Conf.	Interval]
BLOCKSHARE	.0123711	.0024206	5.11	0.000	.0076103	.0171318
DIRESHARE	-.1046	.103955	-1.01	0.315	-.3090571	.0998571
BODSIZE	.0178201	.0120435	1.48	0.140	-.0058669	.041507
BODIND	-.1815374	.1121353	-1.62	0.106	-.4020834	.0390085
ACIND	-.2325704	.1821962	-1.28	0.203	-.5909111	.1257704
ACDIL	.0234227	.0130128	1.80	0.073	-.0021708	.0490161
ACSIZE	.0802177	.0647536	1.24	0.216	-.0471387	.207574
ACEXP	0	(omitted)				
FSIZE	.0870456	.02962	2.94	0.004	.0287894	.1453017
PROF	.0095832	.0195355	0.49	0.624	-.0288389	.0480053
_cons	-1.34345	.6054791	-2.22	0.027	-2.534297	-.1526031



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Appendix D

Result of Model 2

FRQ	Coef.	Std. Err.	T	P>t	[95% Conf.	Interval]
BLOCKSHARE	.0121644	.0049962	2.43	0.015	.0023363	.0219925
DIRESHARE	-.3744982	.2377986	-1.57	0.116	-.8422802	.0932838
BODSIZE	.029461	.0206532	1.43	0.155	-.0111666	.0700885
BODIND	.1341555	.205132	0.65	0.514	-.2693669	.5376778
ACIND	-.1690261	.2613055	-0.65	0.518	-.6830494	.3449971
ACDIL	.0436328	.0281765	1.55	0.122	-.0117941	.0990597
ACSIZE	.0861045	.075853	1.14	0.257	-.0631086	.2353177
ACEXP	0	(omitted)				
FSIZE	.1956309	.0724315	2.70	0.007	.0531483	.3381134
PROF	-.0043945	.0652806	-0.07	0.946	-.1328102	.1240212
BIG4	0	(omitted)				
AUDTENU	0	(omitted)				
BLOCKSHAREBIG4	-.0064015	.0052965	-1.21	0.228	-.0168204	.0040174
DIRESHAREBIG4	.4476861	.2515064	1.78	0.076	-.047061	.9424332
BODSIZEBIG4	-.0104725	.025436	-0.41	0.681	-.0605084	.0395635
BODINDBIG4	-.3044064	.2327554	-1.31	0.192	-.7622676	.1534548
ACINDBIG4	-.1485483	.3929602	-0.38	0.706	-.921554	.6244575
ACDILBIG4	-.0481167	.0280175	-1.72	0.087	-.103231	.0069976
ACSIZEBIG4	-.0421957	.1619131	-0.26	0.795	-.3607006	.2763091
ACEXPBIG4	0	(omitted)				
FSIZEBIG4	-.1692406	.0771463	-2.19	0.029	-.3209977	-.0174834
PROFBIG4	-.1526954	.1188774	-1.28	0.200	-.3865434	.0811525
BLOCKSHAREAUDTENU	.0061335	.0048994	1.25	0.211	-.0035043	.0157713
DIRESHAREAUDTENU	-.1242665	.2177168	-0.57	0.569	-.5525448	.3040118
BODSIZEAUDTENU	-.0043497	.0248331	-0.18	0.861	-.0531999	.0445004
BODINDAUDTENU	-.3884198	.2314138	-1.68	0.094	-.8436419	.0668023
ACINDAUDTENU	-.0863344	.3973628	-0.22	0.828	-.8680006	.6953319
ACDILAUDTENU	-.016625	.0277349	-0.60	0.549	-.0711833	.0379333
ACSIZEAUDTENU	0	(omitted)				
ACEXPAUDTENU	0	(omitted)				
FSIZEAUDTENU	.0486567	.0620602	0.78	0.434	-.0734241	.1707375
PROFAUDTENU	.0246054	.0679137	0.36	0.717	-.10899	.1582009
_cons	-2.036231	.7529008	-2.70	0.007	-3.517289	-.5551734

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