

Audit Committee Attributes and Financial Reporting Quality in Nigerian Quoted Companies

¹Adeyemo Kingsley Aderemi, ²Eriabie Sylvester Osarumwense,

³Adetiloye Kehide and ²Ben-Caleb Egbide

¹Department of Accounting, Covenant University, Ogun State, Ota, Nigeria

²Department of Accounting, Benson Idahosa University, Do State, Benin, Nigeria

³Department of Banking and Finance, Covenant University, Ogun State, Ota, Nigeria

Abstract: The main objective of this study was to evaluate the impact of Audit Committee Attributes on financial reporting quality in Nigerian quoted companies. Data for the study were derived from annual reports of one hundred and thirty one (131) companies quoted on the Nigerian Stock Exchange over the period of 2006 to 2012. The data were analyzed using descriptive, correlation and Ordinary Least Square (OLS). The multivariate regression technique was utilized to estimate our model. The findings showed that each of the audit committee attributes, namely: audit committee frequency of meetings, audit committee financial literacy, audit committee independence, audit committee size and audit committee meeting attendance had a positive significant effect on financial reporting quality. Based on these findings, some recommendations were made, prominent amongst them, was that, in order to strengthen the impact of financial literacy on financial reporting quality, there is need for trainings and seminars to be organized for members of audit committee with a view to enabling them keep abreast of up to date information as regards their roles and responsibilities which will make them more effective and efficient in their assignments. In addition, the securities and exchange commission of Nigeria should put in place a regulation which ensures that audit committee members maintain at least, an attendance level of 85% for them to be retained in the audit committee for the following financial year.

Key words: Financial reporting quality, financial literacy, frequency of meetings, assignments, commission

INTRODUCTION

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

The Audit Committee (AC) is a central element of one of such reforms that can enhance the quality of financial reporting through an open and candid communication and a good working relationship with a company's board of directors, internal auditors and external auditors.

Undeniably, the existence of an appropriately constituted audit committee is now a necessity for all listed companies in the United Kingdom and United States with corporate governance regulation placing significant importance on the role of AC. In Nigeria, the Security and Exchange Commission (SEC) issued a code of Best Practices of Corporate Governance in S.11(a) which provides for the establishment of an audit committee in public companies in Nigeria. Therefore, there is a profound need to explore the features of an audit committee in the Nigerian context, the changing nature of its attributes and association of these attributes with the financial reporting process.

In Nigeria, the creation and establishment of an audit committee is made mandatory by the Companies and Allied Matters Act (CAMA) of 2004. Section 359 (3) states, inter alia "The auditor shall in the case of a public company also make a report to an audit committee which shall be established by the public company". According to CAMA, Section 359 (4), the make-up of the audit committee "shall consist of an equal number of directors and representatives of the shareholders of the company

(subject to a maximum number of six members). The members are not entitled to any remuneration and shall be subject to re-election annually”.

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

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

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

- Determine the influence of frequency of audit committee meetings on financial reporting quality in Nigerian companies

- Ascertain the effect of financial literacy of audit committee members on financial reporting quality in Nigerian companies
- Ascertain the effect of independence of an audit committee on financial reporting quality in Nigerian companies
- Determine whether audit committee size affects financial reporting quality in Nigerian companies; and
- Find out the impact of level of attendance at audit committee meetings on financial reporting quality in Nigerian companies

Literature review and hypotheses development

Concept of financial reporting quality: S.334 (2) of CAMA 2004 spelt out among others two basic financial statements, namely: Statement of Financial Position and Statement of Comprehensive Income. Also relevant are: Statement of Changes in Equity and Statement of Cash Flow. It is on the basis of the aforementioned statements that stakeholders are expected to make informed economic decisions. Financial statements can be adequately relied upon by their users where a structure of review and authorization are put in place to enhance the integrity of such a report (Okpala, 2012). The Institute of Chartered Accountants of Nigeria (ICAN) stated that the structure should include a process that ensures the independence and competence of the external auditors and the audit committee that reviews and considers the financial statements, to enable the provision of confidence, reduction in uncertainty and risk and addition to value. The reliability and credibility of financial reports lie squarely on the shoulders of the board and its audit committee whose duty it is to ensure that internal control measures; accounting policies; and external auditors are in place in order to assure that financial statements are free from fraud. This becomes necessary, given the fact that there are proofs to indicate that the quality of financial reports has diminished over time (Lev and Zarowin, 1999).

In order to ensure high quality financial reporting, the International Accounting Standards Board (IASB) identified in its framework for the preparation and presentation of financial statements, four principal qualitative characteristics, namely: understandability, relevance, reliability and comparability.

Users of financial statements include creditors, suppliers, customers, shareholders, lenders, employees, government agencies. These users have varying information needs. The quality of financial statements is of relevance to the needs for making reliable and informed decisions. Financial reporting embodies two types of

information, namely: quantitative and non-quantifiable information. Both types of information are of immense importance to users of financial statements for decision making.

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

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

Audit committee meetings and financial reporting quality: Regulators and others have expressed a strong preference for an audit committee that meets frequently. Audit committee meetings imply the number of times audit committee members meet. This is quite different from attendance at meetings. Frequent audit committee

meetings allow for better communication between audit committee members and auditors (both external and internal) and enable the audit committee to be more effective.

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

However, empirical evidence on the impact of frequency of audit committee meeting on financial reporting quality differs. Bedard *et al.*(2004) and Lin *et al.* (2006) did not find any positive association between the frequency of audit committee meetings and financial reporting quality.

It follows therefore, an active audit committee with more meetings has more time to oversee the financial reporting process, identify management risk and monitor internal controls. Consequently, the quality of financial reporting tends to increase with an audit committee activity. Arising from the above, the following hypothesis is formulated:

- H₁: Frequency of audit committee meetings does not have significant influence on financial reporting quality

Audit committee financial literacy and financial reporting quality: Financial Literacy is typically demonstrated by employment, experience or certification in accounting or finance. The experience and knowledge in accounting and auditing related issues are considered as an important dimension for an audit committee. This

advantage can help the audit committee members to be more conversant with financial and operational reports that will enable them to execute their oversight duties effectively.

It is generally accepted that the key duty of the audit committee is to review the financial reporting process to ensure the best quality. Thus, the availability of accounting and auditing expertise in the audit committee increases the efficiency of the audit committee's performance. Regulators from various countries realize the importance of financial literacy in improving the audit committee's effectiveness. They believe that the relevant experience or technical knowledge is crucial to effective accounting oversight (Kalbers and Fogarty, 1993). For instance, the Sarbanes-Oxley Act mandates that at least one member of the audit committee must be a financial expert.

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

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

Audit committees that have financial literacy have greater interaction with their internal auditors (Raghunadam *et al.*, 1998). Emeni (2009) evaluated the impact of audit committee characteristics on financial reporting quality and found that there is a positive relationship between the financial reporting quality and financial literacy. In a nut shell, financially knowledgeable audit committee members who possess accounting qualifications are more likely to prevent and detect financial frauds. This necessitates the formation of the following hypothesis:

- H₂: Financial literacy of audit committee members has no significant effect on financial reporting quality

Audit committee independence and financial reporting

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

Xie *et al.* (2003) stated that a more independent audit committee is argued to provide better governance compared to a less independent audit committee. Saleh were of the view that the fully independent audit committee is a very active mechanism against low financial reporting quality. As a result, it is logical to expect that the independence of an audit committee is negatively associated with the earnings management practice.

Other studies results differ. Lin *et al.* (2006) showed that there is no relationship between an audit committees independence members and financial reporting quality. Xie *et al.* (2003) likewise observed no relationship between the level of financial reporting quality and an independent audit committee.

One possible interpretation of some of the findings is that the more independent the audit committee is, the less likely is financial statement fraud, thus resulting to high financial reporting quality. Given the inconclusive findings, the following hypothesis is formulated:

- H₃: There is no significant relationship between independence of audit committee members and financial reporting quality

Audit committee size and financial reporting quality:

The audit committee size is the number of directors and shareholders that make up the audit committees. The Blue Ribbon Committee (BRC)'s Report of 1999 released the usefulness of having an audit committee and recommended that an effective audit committee of listed companies should consist of at least three directors. S. 359(4) of Companies and Allied Matters asserted that an audit committee shall consist of an equal number of directors and representatives of the shareholders of the company subject to a maximum number of six members.

Yermack found that a small board size enhances a firm's value. Jensen asserted that a small number of board members improve the efficiency of audit committee monitoring and control. A larger audit committee may not necessarily cause more effective functioning but may lead to unnecessary debates and delay decisions (Lin *et al.*, 2006). Goodstein posited that a large board size is associated with delays and administrative bottlenecks.

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

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

- H₄: There is no significant relationship between audit committee size and financial reporting quality.

Audit committee attendance at meetings and financial reporting quality: Apart from the frequency of meetings, the level of attendance of audit committee members can also be used to measure how active audit committee members are. The level of attendance of audit committee members implies the number of times each member of an audit committee attends audit committee meetings. This is quite different from the frequency of audit committee meetings which means the number of meetings held by audit committee members. If the frequency of an audit committee meeting is high and the attendance level is low, this may impede the efficiency of the audit committee members. It therefore follows that the more active and participative the audit committee members are, the better is the financial reporting quality. Emanating from the above, the following hypothesis is formulated:

- H₅: The level of attendance at audit committee meetings has no significant relationship with financial reporting quality

Theoretical framework: The theoretical basis for this study is the agency theory which emanates from the

relationship between the principal (owners) and the agent (managers). Audit committees primarily align the interests of owners with the management's interest. The establishment of audit committees is regarded as a reaction to information asymmetries between the owners of a company and its management. Demsetz and Lehn asserted that the primary objective of an audit committee is to resolve agency problems by monitoring management's behaviour and inspecting the quality of financial reporting. Consequently, enhancing audit committees will lead to an improved financial reporting quality. Emanating from this agency theory, independent variables were considered with a view to examining the impact of these explanatory variables (audit committee independence, audit committee size, audit committee financial literacy, audit committee frequency of meetings and audit committee attendance at meetings) on financial reporting quality.

MATERIALS AND METHODS

Research design and source of data: The study used the panel data design of companies listed in the Nigerian Stock Exchange over the period of 2006-2012 for the purpose of testing the hypotheses. Secondary data derived from annual reports of one hundred and thirty one companies listed in the Nigerian Stock Exchange, were utilized for the study.

A total of one hundred and ninety four (194) quoted companies constitute the population. The sample size consists of one hundred and thirty one (131) companies using Taro Yamane formula. The choice of companies was based on availability of data in respect of companies in operation for seven consecutive years taking cognizance of sectoral representation of eleven (11) sectors of companies quoted on the Nigerian Stock Exchange.

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

$$\text{FRQ} = f(\text{ACFM}, \text{ACFL}, \text{ACIND}, \text{ACSIZ}, \text{ACMA}) \quad (1)$$

In econometric form:

Table 1: Operationalization of variables

Variables	Definition	Type	Measurement	Researchers
FRQ	Financial Reporting Quality	Dependent	Discretionary Accruals	Modified Jones, model
ACFM	Audit Committee Frequency of Meetings	Independent	No. of times the audit committee meets in a year	Zhang <i>et al.</i> (2007)
ACFL	Audit Committee Financial Literacy	Independent	No. of audit committee Accounting members having experience, knowledge in	KlbersandForgartry, 1993
ACIND	Audit Committee Independence	Independent	No. of non-executive directors (outside directors) in the audit committee	Choi <i>et al.</i> (2004)
ACSIZ	Audit Committee Size	Independent	No. of individuals on the audit committee	Yang and Krishnan (2005)
ACMA	Audit Committee Meeting Attendance	Independent	No. of audit committee members in attendance	Nordinand Marini
BDSIZ	Board Size	Independent(control)	No. of directors on the board	ThinggardandKiertzer
BDIND	Board Independence	Independent(control)	No. of non-executive directors (i.e.outside directors)	Uwuigbe
BDDILI	Board Diligence	Independent (control)	No. of meetings held by the board	David andDadalt
ROE	Return on Equity	Independent(control)	Ratio of Profit after tax to total equity	Naomi and Maria

$$\begin{aligned} \text{DACC}_{it} = & \delta_0 + \delta_1 \text{ACFM}_{it} + \delta_2 \text{ACFL}_{it} + \\ & \delta_3 \text{ACIND}_{it} + \delta_4 \text{ACSIZ}_{it} + \delta_5 \text{ACMA}_{it} + \\ & \delta_6 \text{BDSIZ}_{it} + \delta_7 \text{BDDIL}_{it} + \delta_8 \text{BDIND}_{it} + \\ & \delta_9 \text{ROE}_{it} + \mu_{it} \end{aligned} \quad (2)$$

Where:

DACC = Discretionary Accruals(proxy for Financial Reporting Quality)

ACFM = Audit Committee Frequency of Meetings

ACFL = Audit Committee Financial Literacy

ACIND = Audit Committee Independence

ACSIZ = Audit Committee Size

ACMA = Audit Committee Meeting Attendance

BDSIZE = Board Size

BDDILI = Board Diligence

BDIND = Board Independence

ROE = Return on Equity

μ_{it} = Error term

δ_1 - δ_9 = Unknown coefficients of the variables

$\text{Rev}_{i,t}$ = Change in Revenues of company i between year t and t-1

$A_{i,t-1}$ = Total assets of company i at the end of year t-1

$\text{PPE}_{i,t}$ = Each company's gross values of Property, Plant and equipment in year t-1

CFO = Cash Flow from operations for company i in year t;

e_{it} = Error term

$\text{NDAC}_{i,t}$ = Non-discretionary accrual for company i at time t;

$\Delta \text{Rec}_{i,t}$ = Change in account receivables (debtors) of company i, between year t and t-1

The variables in the model are measured in Table 1 as follows: For one hundred and thirty one companies (131) observed, the variables were measured in relation to each company, covering a period of seven years (2006-2012).

RESULTS AND DISCUSSION

This section presents in detail, descriptive statistics, pearson correlation and ordinary least square regression. Table 2 presents the result of the descriptive statistics of the variables as follows:

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

As observed in Table 2, DACC had a mean value of 2.64E-07 which suggested minimal DACC value for sample with maximum and minimum values of 0.00496 and -0.003 respectively and this is similar to results obtained by Okolie (2013).The standard deviation suggested that the DACC values across the companies exhibited considerable clustering around the mean. The Jacque-Bera statistic of 660154.2 alongside its p-value (p =

It is expected as:

$$\delta_1 - \delta_9 < 0$$

DACC (Discretionary Accruals) adopted from modified-Jones (1991) model is determined as the residual (difference) between TAC and NDAC shown as follows:

$$\text{DAC}_{i,t} = [\text{TAC}_{i,t} / A_{i,t-1}] - [\text{NDAC}_{i,t}] \quad (6)$$

$$\begin{aligned} [\text{TAC}_{i,t} / A_{i,t-1}] = & \beta_1 [\text{CFO} / A_{i,t-1}] + \beta_2 [(\text{Rev}_{i,t}) / A_{i,t-1}] + \beta_3 [\text{PPE}_{i,t} / A_{i,t-1}] + e_{i,t} \end{aligned} \quad (7)$$

$$\begin{aligned} \text{NDAC}_{i,t} = & \beta_{01} [1 / A_{i,t-1}] + \beta_{11} [(\text{Rev}_{i,t} - \Delta \text{Rec}_{i,t}) / A_{i,t-1}] + \beta_{21} [\text{PPE}_{i,t} / A_{i,t-1}] + e_{i,t} \end{aligned} \quad (8)$$

Where:

$\text{TAC}_{i,t} = \text{TAC}_{i,t} / A_{i,t-1}$ = Total accrual of company i in year t;

Table 2: Descriptive statistics

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

Table 3: Pearson correlation statistics

Variables	DACC	ACFL	ACFM	ACIND	ACMA	ACSIZE
DACC	1	-	-	-	-	-
ACFL	-0.0300	1.0000	-	-	-	-
ACFM	0.0170	-0.1080	1	-	-	-
ACIND	0.0322	0.0491	0.1791	1	-	-
ACMA	-0.0600	-0.0990	0.0832	0.176	1	-
ACSIZE	0.0310	0.0331	0.1724	0.547	0.1789	1
BDDIL	-0.0530	-0.1890	0.1263	-0.050	0.0391	-0.0250
BDIND	-0.0410	-0.1920	0.0237	-0.090	0.0366	-0.0650
BDSIZE	0.0010	-0.1260	0.1287	0.072	0.0726	0.0692
ROE	-0.1220	-0.0910	0.0698	-0.326	0.0068	-0.0030

Source: Author's Compilation (2015)

0.00<0.05) indicated that the data satisfied normality and as well as the unlikelihood of outliers in the series. ACFL was observed to have a mean value of 1.4 with maximum and minimum values of 4 and 0 respectively. The standard deviation of 1.149 suggested a considerable clustering around the average for the sample. The Jarque-Bera statistic of 27.58 alongside its p-value ($p = 0.00<0.05$) indicated that the data satisfied normality and as well as the unlikelihood of outliers in the series. The mean for ACFM is 3.497 with maximum and minimum values of 12 and 1 respectively. The standard deviation of 1.035 suggested a considerable cluster around the average. The Jarque-Bera statistic of 2483 alongside its p-value ($p = 0.00<0.05$) indicated that the data satisfies normality. The statistics is higher than that of Saudi quoted firms (mean = 2.9 min = 2, max = 7) for new-Zealand (mean = 2.44, min = 0.00, max = 12) and lower in maximum values for Australian quoted firms (mean = 3 min = 0, max = 15) (Al-Lehaidan, 2006). ACIND had a mean value of 2.963 with maximum and minimum values of 3 and 2 respectively. The spread of the data around the mean is 0.261 which suggested a considerable clustering around the average. The Jarque-Bera statistic of 1672 alongside its p-value ($p = 0.00<0.05$) indicates that the data satisfied normality. The mean statistics is higher than that of Malaysia quoted firms (mean = 0.74, min = 0.20, max = 1) and for New-Zealand (mean = 0.75, min = 0.00, max = 1.00). The mean for ACMA is approximately 4.0294 with maximum and minimum values of 6 and 2 respectively. The standard deviation of 1.2688 suggested a considerable clustering around the average. The Jarque-Bera statistic of 24.484 alongside its p-value ($p = 0.00<0.05$) indicated that the data satisfied normality. AC SIZE was observed with a mean value of approximately 6 with maximum and minimum values of 6 and 4 respectively. The standard deviation of 0.527

suggested a considerable cluster around the average. The Jarque-Bera statistic of 1535.4 alongside its p-value ($p = 0.00<0.05$) indicated that the data satisfied normality. The statistics was higher than that of Saudi quoted firms (mean = 2.9 min = 2, max = 4), Australian quoted firms (mean = 3 min = 1, max = 6) (Al-Lehaidan 2006) and Malaysia quoted firms (mean = 3.27 min = 2, max = 5) (Hussain and Mustafa 2012) and lower in maximum values for New-Zealand (mean = 3.28, min = 0.00, max = 8.00). Next, is the examination of the correlation coefficients of the variables. However of particular interest to the study is the correlation between DACC and the Audit committee attributes.

As observed, a negative correlation existed between DACC and ACFL ($r = -0.03$). Though the coefficient is weak, the direction of association suggested that audit committee financial literacy could tend to decrease the DACC and hence improve financial reporting quality. A similar observation was identified by Baxter for Australian quoted companies with a coefficient ($r = -0.020$) though quite different from that found by Sherliza and Nurul ($r = 0.093$) for Malaysian quoted companies. A positive correlation was also observed between DACC and ACFM ($r = 0.017$). Though weak, the correlation suggested that ACFM might not be associated with a decline in DACC. This differed from what was observed by Baxter for Australian quoted companies ($r = -0.044$) and Sherliza and Nurul for Malaysian quoted companies ($r = -0.051$). A positive association was observed between DACC and ACIND ($r = 0.032$). Though weak, the correlation suggested that ACIND might not be associated with a decline in DACC. ACMA was observed to correlate negatively with DACC ($r = -0.06$). Though weak, the correlation suggested that ACMA was associated with a decline in DACC. ACSIZE was positively correlated with DACC ($r = 0.031$).

Table 4: Regression assumptions test

Multicollinearity test: Variance Inflation factor			
Variable	Coefficient	Variance	Centered VIF
C	473.1977		NA
ACFL	3.78785		1.279933
ACMTA	1.94653		1.259792
AUDFM	3.771958		1.319219
AUDIND	178.1095		6.29663
AUDS	37.4391		6.205383
Heteroskedasticity Test: ARCH			
F-statistic = 0.12504	Prob. F(1,45)		0.7253
Obs*R-squared = 1302	Prob. Chi-Square(1)		0.7182
Breusch-Godfrey Serial Correlation LM Test:			
F-statistic = 0.12504	Prob. F(2,34)		0.3939
Obs*R-squared=2.559647	Prob. Chi-Square(2)		0.2781
Ramsey Reset Test			
t-statistics=1.2948	Df= 92		0.1986
f-statistics=1.676	Prob. F(1,92)		0.1986
Researchers Compilation (2015)			

Table 5: Panel Regression Results(Fixed effects)

Pred							
Variable	.sign	A	B	C	D	E	F
C		-6.215*	-6.365*	6.205*	5.550*	-6.696*	6.565*
		(9.197)	(8.227)	(6.457)	(1.316)	(4.447)	(5.340)
		{0.000}	{0.000}	{0.000}	{0.00}	{0.002}	{0.000}
AUDS		-2.025**					2.796
		(1.587)					(1.646)
		{0.065}					(0.100)
ACIND		-6.577*					-7.110*
		(2.827)					(3.616)
		{0.000}					{0.045}
ACFL		-1.326*					-1.276*
		(4.590)					(6.117)
		{0.000}					{0.089}
ACFM					-1.340		-1.940
					3.777		6.847
ACMA						-1.696*	-1.016
						(4.440)	(5.720)
						(0.000)	(0.078)
R ²		0.486	0.55	0.51	0.50		0.53
F-Stat		5.605	7.55	4.156	2.34	3.652	2.62
P(F-stat)		0.000	0.00	0.04	0.00	0.000	0.036
D.W		2.07	2.08	2.05	2.00	2.01	2.012
Hausman test:			0.046				

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

Table 3 shows the regression assumptions test for model. As observed, the Variance Inflation Factor (VIF) shows how much of the variance of a coefficient estimate of a regressor has been inflated due to collinearity with the other regressors. Basically, VIFs above 10 are seen as a cause of concern. As observed, none of the variables has VIF's values exceeding 10 and hence none gave serious indication of multicollinearity. The ARCH test for heteroscedasticity was performed on the residuals as a precaution. The results showed probabilities in excess of 0.05 which led one to reject the presence of heteroscedasticity in the residuals. The Lagrange Multiplier (LM) test for higher order autocorrelation revealed that the hypotheses of zero autocorrelation in the residuals were not rejected. This was because the

probabilities (Prob. F, Prob. Chi-Square) were greater than 0.05. The LM test did not therefore reveal serial correlation problems for the model. The performance of the Ramsey RESET test showed high probability values that were greater than 0.05, meaning that there was no significant evidence of miss-specification. Table 4 shows the result of the fixed effects panel estimation.

In evaluating the individual effect of the variables in Table 5, one observed that Audit Committee Size (AUDS) (Panel A) explained 48.6 % of systematic changes in financial reporting quality. The coefficient was negative (-2.025) in line with the predicted sign and also insignificant ($p = 0.065$) at 10% level. The F-stat (5.605) and p-value (0.00) indicated that the null hypothesis which states that there is no significant linear relationship between audit committee size and financial reporting quality was rejected at 5% level while the D. W statistics of 2.07 indicated the absence of a serial correlation of the residuals in the model. The negative coefficient of -2.025 implies that there was an increase in audit committee size which resulted in a decline in discretionary accruals and thus improved (i.e. increase) financial reporting quality. Audit Committee Independence (ACIND) (Panel B) explained about 55% of systematic changes in financial reporting quality. The coefficient was negative (-6.577) and significant ($p = 0.00$) at 5% level. The F-stat (7.55) and p-value (0.00) did not support the null hypothesis of no significant linear relationship between the ACIND and financial reporting quality hence the rejection of the null hypothesis, while the D. W statistics of 2.08 indicated the absence of a serial correlation of the residuals in the model. Audit Committee Financial Literacy (ACFL) (Panel C) explained about 51% of systematic changes in financial reporting quality. The coefficient was negative (-1.326) in line with the predicted sign and significant ($p = 0.00$) at 5% level. The F-stat (4.156) and p-value (0.04) did not support the null hypothesis of no significant linear relationship between Audit Committee Financial Literacy and financial reporting quality at 5% level while the D. W statistics of 2.05 indicated the absence of a serial correlation of the residuals in the model. Audit Committee Frequency of Meeting (ACFM) (Panel D) accounted for 50% of systematic changes in financial reporting quality. The coefficient was negative (-1.340) in line with the predicted sign and significant ($p = 0.00$) at 5% level. The F-stat (2.34) and p-value (0.00) did not support the null hypothesis of no significant linear relationship at 5% level while the D. W statistics of 2.00 indicated the absence of a serial correlation of the residuals in the model. Audit Committee Attendance at Meetings (ACMA) (Panel E) accounted for 52% of systematic changes in financial reporting quality. The coefficient was negative (-1.696) in

line with the predicted sign and significant ($p = 0.00$) at 5% level. The F-stat (3.652) and p-value (0.000) did not support the null hypothesis of no significant linear relationship at 5% level while the D. W statistics of 2.01 indicated the absence of a serial correlation of the residuals in the model. A joint estimation of audit committee attributes (Panel F) showed an R^2 of 53% with all audit committee variables except AUDS, showing statistical significance. The F-stat (2.62) and p-value (0.036) supported the hypothesis of a joint significant linear relationship at 5% level while the D. W statistics of 2.012 indicated the absence of a serial correlation of the residuals in the model.

CONCLUSION

The study postulates, in line with prior studies, based on agency theoretical framework that audit committee can impact significantly, constrain accrual-based distortion of quality of financial reporting credibility and thus improve the quality of financial reporting. To buttress this argument, audit committee attributes were regressed on discretionary accruals used as proxy for financial reporting quality while board size, board diligence, board independence and return on equity as control variables. The findings of the study suggested that audit committee frequency of meetings, audit committee financial literacy, audit committee independence, audit committee size and audit committee meeting attendance had positive statistical significant impact on financial reporting quality in Nigerian quoted companies.

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

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

RECOMMENDATIONS

Lastly, it is suggested that regulatory authorities such as SEC, CBN and NDIC should give special attention to audit committee members with high status with a view to making it mandatory for all companies to comply with it, bearing in mind that while financial literacy provides the knowledge necessary to improve quality of financial reporting, it may not be sufficient by itself to effectively reduce accounting irregularities. Status, in this context, implies an aspect of personal power reflecting the ability to influence outcomes based on perceived skills, qualities and personal attributes.

REFERENCES

- Abbott, L.J. and S. Parker, 2000. Auditor selection and audit committee characteristics. *Auditing J. Pract. Theory*, 19: 47-66.
- Abbott, L.J., S. Parker and G.F. Peter, 2004. Audit committee characteristics and restatements. *Auditing J. Pract. Theory*, 23: 69-87.
- Balsam, S., J. Krishnan and J.S. Yang, 2003. Auditor industry specialization and earnings quality. *Auditing J. Pract. Theory*, 22: 71-97.
- Beasley, M.S., J.V. Carcello, D.R. Hermanson and P.D. Lapides, 2000. Fraudulent financial reporting: consideration of industry traits and corporate governance mechanisms. *Account. Horizons*, 14: 441-454.
- Bedard, J., S.M. Chtourou and L. Courteau, 2004. The effect of audit committee expertise independence and activity on aggressive earnings management. *Auditing J. Pract. Theory*, 23: 13-35.
- Chen, C.Y., C.J. Lin and Y.C. Lin, 2008. Audit partner tenure audit firm tenure and discretionary accruals: Does long auditor tenure impair earnings quality?. *Contemp. Accounting Res.*, 25: 415-445.
- Chung, H. and S. Kallapur, 2003. Client importance nonaudit services and abnormal accruals. *Accounting Rev.*, 78: 931-955.
- DeFond, M.L., R.N. Hann and X. Hu, 2005. Does the market value financial expertise on audit committees of boards of directors? *J. Accounting Res.*, 43: 153-193.
- Emeni, F.K., 2009. Audit committee characteristics and quality of financial reporting. *Multi Disciplinary J. Bus.*, 1: 38-47.
- Healy, P.M. and J.M. Wahlen, 1999. A review of the earnings management literature and its implications for standard setting. *Account. Horizons*, 13: 365-383.

- Jackson, A.B., M. Moldrich and P. Roebuck, 2008. Mandatory audit firm rotation and audit quality. *Managerial Auditing J.*, 23: 420-437.
- Johnson, V.E., I.K. Khurana and J.K. Reynolds, 2002. Audit-firm tenure and the quality of financial reports. *Contemporary Account. Res.*, 19: 637-660.
- Jonas, G. and J. Blanchet, 2000. Assessing quality of financial reporting. *Accounting Horiz.*, 14: 353-363.
- Kalbers, L.P. and T.J. Fogarty, 1993. Audit committee effectiveness: An empirical investigation of the contribution of power. *Auditing*, 12: 24-49.
- Lev, B. and P. Zarowin, 1999. The boundaries of financial reporting and how to extend them. *J. Account. Res.*, 37: 353-385.
- Lin, J.W., F.L. June and J.S. Yang, 2006. The effect of audit committee performance on earnings quality. *Managerial Auditing J.*, 21: 921-933.
- Myers, J.N., L.A. Myers and T.C. Omer, 2003. Exploring the term of the auditor-client relationship and the quality of earnings: A case for mandatory auditor rotation?. *Accounting Rev.*, 78: 779-799.
- Okpala, E., 2012. Audit committee and financial statements. *J. Bus. Manage. Res.*, 2: 32-40.
- Raghunadan, K.R., D.V. Rama and D.P. Scarbrough, 1998. Accounting and auditing knowledge level of Canadian Audit Committee: Some empirical evidence. *J. Int. Accounting Auditing Taxation* 7: 181-194.
- Vafeas, N., 2005. Audit committees boards and the quality of reported earnings. *Contemp. Accounting Res.*, 22: 1093-1122.
- Xie, B., W.N. Davidson III and P.J. DaDalt, 2003. Earnings management and corporate governance: The role of the board and the audit committee. *J. Corporate Finance*, 9: 295-316.
- Yang, J.S. and J. Krishnan, 2005. Audit committees and quarterly earnings management. *Intl. J. Auditing*, 9: 201-219.
- Zhang, Y., J. Zhou and N. Zhou, 2007. Audit committee quality auditor independence and internal control weaknesses. *J. Accounting Public Policy*, 26: 300-327