Corporate Governance and Financial Reporting Quality in Nigeria

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ABSTRACT

The broad objective of the study is to examine the effect of corporate governance on the quality of financial reporting in Nigeria measured by the independent variables using selected quoted companies in Nigeria. The specific objective however is to examine the impact of board size, board independence, presence and independence of audit committee, directors shareholding, and the ownership structure on financial reporting quality in Nigeria.

The population of the study comprise all the quoted companies while a sample of 10 companies was selected using the simple random technique. The secondary data for the companies was sourced for 2015-2019 financial year and regression analysis was utilized in the data analysis.

The study found that BDS and BDI are positively associated while AUDCOMS also shows positive correlation with BDS and with BDI. DIRSH is observed to be positively correlated with BDS as well as with BDI and with AUDCOM. Finally, OSTR was found to be positively correlated with BDS as well as with BDI, with AUDCOM and with OSTR. The study recommends that regulators should therefore take the subject of ethics in company governance beyond the development of codes and submission of reports.

Keywords: BDS – Board Size, BDI – Board Independence, AUDCOM – Audit Committee, DIRSH – Director Shareholding, OSTR – Ownership Structure.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The increasing information needs of stakeholders who have effective interest in financial reporting has resulted in the quest for timely and credible financial reports. According to international accounting standards board, timeliness of financial reports is the readily availability of financial information to presumed users before it loses its value or credibility of being acted upon. In developing economies, the provision of timely information in corporate reports is very important as other non-financial sources such as conferences, press release, news report are not well profound and regulatory bodies are not effective.

Financial reporting quality is the precision with which financial reports conveys financial information about a firms operations. The primary objective of financial reporting is to provide high quality financial information about entities useful for economic decision making {Biddle, Hilary, Verdi, 2009}. The provision of high quality financial information is important because it influences the providers of capital positively in making investment, financial and similar allocation that enhance the overall market efficiency IASB, 2008. Financial reporting quality does not only refer to financial information but also disclosures and non financial information useful for decision making included in the financial statements. According to IAS1, Financial reports presents the performance of management as stewards of resources trusted to them.

Corporate governance is the mechanism, process and practice by which companies are governed and controlled. Good corporate governance is a corporate set-up that leads to maximization of shareholders wealth legally, ethically, and on a sustainable basis while ensuring equity and transparency to all stakeholders {Murthy, 2006}. Corporate governance is a uniquely complex and multi-faceted subject {Ene & Bello, 2016}. Corporate governance is aimed at ensuring proper governance of business as well as complying with all the governance norms prescribed by regulatory body for the benefit of all interested parties including society {Fekada, 2015}. Corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate governance.

Corporate governance and financial reporting quality are highly interwoven. Infact, financial reporting quality forms part of corporate governance mechanism, Melis 2004, Melis and Carta, 2010. The aim of financial report is to make available high quality information which corporate governance as part of its objectives provide platforms to endure the quality of financial report published. It is suggested that when accounting or financial reports are handy and timely, such information is said to be of high quality, but what role does corporate governance variables play in improving accounting quality. The accounting quality in this context is defined in terms of timeliness which in view of Sloan {2012} depends largely on the existence of strong corporate governance structures.

1.2 STATEMENT OF RESEARCH PROBLEM

Reported high profile scandals involving entities such as Enron, WorldCom e.t.c at the turn of the century has been a source of serious concerns and these scandals has been facilitated by dishonest practices by managers and in some cases complete cover up of these illicit acts which has greatly ruined these corporations and the lives of millions of innocent persons who have stake in them. It is against this veil that there is a need for global commitment to pursue and promote good corporate governance practices in corporations all around the world and with it came the need to establish standards which countries and corporation are recommended to adopt. It needs to be strongly emphasized that balancing stakeholders interest goes beyond protecting the interest of shareholders in every individual organization.

Truly, it revolves around embracing good corporate governance measures that establishes rules and regulations that govern the relationship between managers and shareholders of the organization as well as stakeholders like financial institutions or creditors, local communities while ensuring credibility, fairness and accountability. In Nigeria, corporate governance is challenged with issues like small board size, significance reduction in board independence which has resulted in less credibility of financial reports, manipulative audit committees, lower degree of directors shareholding which has contributed to the non-chalant attitude directors give towards their job, smaller extent of opportunity given to investors to have direct participation in operation and financial aspects of the organization. These and many other factors is what prompted the researcher to investigate the role of corporate governance in achieving effective reporting quality among listed firms in Nigeria.

1.3 RESEARCH QUESTIONS

In the light of the above, the study seeks to answer the following question:

1. How does small board size affect the quality of financial reports among firms?
2. To what extent does the non-independence of the board contribute to the effect of financial reporting quality of listed firms?
3. In what degree does availability and independence of audit committee contribute to financial reports prepared by these firms?
4. To what extent does a significant increase in amount of directors shareholding affect financial reports produced by listed firms?
5. What are the draw backs of not having enough direct participation of investors in the organization's affair on the quality of financial reports of these firms?

1.4 OBJECTIVES OF THE STUDY

Based on the research questions raised, the broad objectives of the study is to find out the relationship between corporate governance and financial reporting quality and the specific objectives are to;

1. Examine the effect of board size on the quality of financial reports in listed firms.
2. Determine how independence of board of directors can affect financial reporting quality of listed firms
3. Ascertain if the presence of and independence of audit committee can affect the quality of financial reports of listed firms;
4. Evaluate the effect of director shareholding on the quality of reported earnings of listed firms; and
5. Assess the effect of ownership structure on reported earnings quality of listed firms.

1.5 RESEARCH HYPOTHESES

1. H_o1: There is no significant relationship between board size and financial reporting quality of listed firms

2. H_o2: There is no positive relationship between board independence and financial reporting quality of listed firms

3. H_o3: There is no positive relationship between presence and independence of audit committee and financial reporting quality of listed firms

4. H_o4: There is no significant relationship between directors shareholding and the quality of financial reports of listed firms

5. H_o5: There is no significant relationship between ownership structure and the quality of financial reports of listed firms

1.6 SCOPE OF THE STUDY

The study is concerned about corporate governance and the impact on the quality of financial reporting with reference to quoted companies from various industries in Nigeria. It outlines various corporate governance variables that are of significant effect in the quality of financial reporting in Nigeria. Data for the study were extracted from corporate annual reports and accounts of selected firms quoted in the Nigeria stock exchange for the period of 2015-2019. Data for corporate governance proxied by board size, board independence, audit committee, director shareholding and ownership structure were extracted from the notes from annual reports.

The limitation of this study is the instability of values accorded to these corporate governance variables identified. Another limitation is time constraint. The period within which the study was conducted is short for a thorough research work, hence gathering adequate information was very difficult. Also, finance is one of the limitations to the study. The researcher faced financial constraint to meet all the needed educational requirements in this study.

1.7 SIGNIFICANCE OF THE STUDY

The ultimate goal of every business organization it to produce quality financial report (statement). This goal can be achieved by taking into consideration various corporate governance mechanisms that aid in producing timely and effective financial report. The investors and other stakeholders, will find this research useful for investment decisions. This study will also be of importance to the companies listed in the stock exchange for effective decision making. The government will find this study useful legislation making and for making appropriate tax decisions. This research finding and literature will serve as a topic for future studies by academicians and researchers

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The framework underlining the literature review of the research is structured as follows. The first part of the literature review is what the researcher called the conceptual literature review which focuses on corporate governance literature; definitions of corporate governance followed by an appraisal of the literature on corporate governance. Next is an evaluation of the literature on corporate governance. This chapter also examines literature on corporate governance regulation and models of managerial behavior, and also an evaluation of agency, shareholder, stakeholder, stewardship, resource dependency, legitimacy and political theories.

2.1 Conceptual clarification

The term governance has been surrounded by a few slightly diverging definitions and understanding of what is actually meant by the term. This suggests that the complexity of governance is difficult to capture in a single term. Solomon {2007} suggested that governance derives from the Latin word ''Gubernare'', meaning 'to steer' which in normal literal term means to guide which implies that corporate governance involves the function of direction rather than control. This approach emphasizes the importance of direction over control. Furthermore, the element of control and a sense of direction are two important principles in corporate governance. World bank {2013} opined that the term governance can be defined as the process by which authority is conferred on rulers, by which they make rules, and by which those rules are enforced and modified. The institute of directors gives a more holistic approach to the concept of governance and said that it does not exclusively has to do with the control of management by external shareholders.

Tricker {1984} and Solomon {2007} suggested that governance has more to do with direction, but in a differing opinion, the Institute of Directors appear to advocate the importance of control {by following a particular rule, standard or principle} over direction. One can say that these views are incompatible but surely direction would involve some kind of control to an extent.

This study also revealed the term governance is not simply restricted to corporations as such but also self-governance, non-corporate organizations and state. Batho and McNutt{2005} argued that governance at employee level is not just about right and wrong but emphasizes a contractual sense of duty to fellow employees as stakeholders of the firm, however it is argued that governance is not after all, applying static rules but understanding and dealing with the management of the ever-changing environment within which it operates, O'Reilly {2003}. Fyfe {2003} defined governance as '' relationship management and decision making based on complex interplay of interest, differences, rights and obligations of a society public, private and voluntary sectors, groups and citizens ''. This definition stated above emphasizes the complexity of governance in planning and implementing measures aimed at improving performance in an ever changing environment in which they operate. However according to Crossan, the exact meaning of governance '' is still much open to debate where some see it as proxy for shareholder power, others see it as a basic set of guidelines that public companies have to follow.

In terms of theoretical explanation, the term corporate governance is relatively new, but the practice is ancient {Causey, 2008}. Smith {1827} argued that directors in public companies being watchers of other people's money rather than their own, it cannot be expected them to watch over it with the same zeal with which partners in private firms watch over their own. Negligence and misunderstanding must always prevail more or less in management of the affairs of the organization. This explains corporate governance without using the term itself. It could also mean the process of decision making and its implementation.

There are a number of definitions of corporate governance but the main one used by most researchers is the one provided by Cadbury report {1992} on the financial aspects of corporate governance, which describes corporate governance as: the systems by which companies are directed and controlled. Board of directors are responsible for the governance of the companies. The shareholder role in governance is to appoint the directors and auditors and to fulfill themselves that an appropriate governance structure is in place. The responsibilities of the directors include setting strategic goals, providing leadership to put them into effect, supervising the management and reporting to the shareholders. The actions of the directors are subject to laws, regulations and shareholders in general meetings.

2.2 Origin and Concept of financial reporting quality

Accounting professionals agree that modern accounting dates back in the fourteen century where double entry system began. However, the origin of accounts are generally attributed to the work of Luca Paciolo, a famous Italian mathematician. He described a system to ensure that financial information was recorded efficiently. With the event of industrial age in the nineteenth century and later emergence of large corporations, a separation of owners from managers took place. As a result, the need to report the status of business e continued to become of significant importance to ensure that managers act in accordance with owner's requirements. In addition, transactions between businesses became more complex, this led to the emergence of financial reports. Kariuki and Jagongo, 2013.

Financial reporting quality is defined as an essential source of information for the decision making processes of economic agent. Investors decide whether to purchase stock by analyzing a firm's financial report. Claudia, Antonio & Elisio, 2011.

Scoh and Irem, 2008 defined financial reporting quality as the accuracy with which reported financial reports of firm reflect its operating performance and how useful they are in forecasting future cash flows. The IASB {2008} has however provided a working definition of quality of financial reporting. The board in its conceptual framework defines quality financial reporting as the objective and qualitative characteristics of financial reporting.

2.3 Theoretical Framework

It is useful to develop a framework to explain how corporate governance affects the quality of financial reports of firms in the economic sense. Corporate governance has traditionally been associated with the 'agency' problem between shareholders and management {Maher and Anderson, 2000}. A principal-agent relationship arises where the owner of the firm is not the same person as the person that manages the firm. Corporate governance itself describes the formal system of accountability of senior management to stakeholders. Shareholders delegate the responsibility of managing the firm to the managers who in turn are expected to use their specialized knowledge to generate the highest possible return for the shareholders and optimize value for shareholders and stakeholders in the long run. However, due to differential interests, managers may pursue their own interests for their benefits. To prevent this, shareholders develop a monitoring systems to constrain managers' actions so that they can act in interest of the stakeholders. This monitoring mechanism involve the use of compensation contracts to align the interest of managers and principals.

2.3.1 Agency Model

One of the incentive based economic models of managerial behavior which motivate governance structures is agency model{Bhagat and Bolton, 2008}.Agency theory as postulated by Jensen and Meckling, 1976 is a situation where a person called the principal, hires the service of another called the agent, to carry out some activities on his behalf for a fee. The agency model argues that because managers are self-interested and will take action that hurt shareholders, compensation incentives and contracts should be offered to shareholders to induce them to act well while managing the firm. Also, ownership of the firm by managers may also be used as a way of inducing the managers to act in the interest of shareholders. However, agency problem may arise when the incentives between the managers and the shareholders when the incentives given to the managers is not properly aligned and conflict of interest may ensue. The manager may get away with not acting in the best interest of the shareholders. A first possible explanation is that the cost to the shareholders of removing or punishing the manager is relatively too high compared to the benefit. A second and more widely applicable explanation is the presence of information asymmetry. Information asymmetry arises when one party is better informed than the other. Information asymmetry makes it difficult for shareholders to know if the managers are acting in their best interest.

2.3.2 Adverse Selection Model

On the other hand, the adverse selection model is motivated by the fact that there are differences in managers ability to manage the firm which may not be observed by shareholders. In this case, ownership may be used to induce managers to reveal the private information they have about their ability to generate cash flow, which may not be directly observed by shareholders. The consequence of this is that shareholders may unintentionally hire self-interested managers who may amass pecuniary benefits to themselves at the expense of the shareholders.

2.3.3 Stakeholder Theory

Another theoretical dimension is stakeholder theory. It was propounded by Dr. F. Edward Freeman. This theory centers on the issues concerning the stakeholders in an institution. It stipulates that a corporate entity invariably seeks to balance the interest of the diverse stakeholders to ensure that each interest constituency receives some degree of satisfaction, Abrams, 2019. However there is an argument that the theory limits the interest group of an entity to its shareholders only. The traditional definition of a stakeholder is ''any group or person which is affected or can affect the achievement of the organization's objectives. With an original view of the firm, the shareholder is the one recognized by business law in most countries because they are the owners of the firm. Given this, the firm has a fiduciary duty to maximize their returns and put their needs first.

2.3.4 Stewardship Theory

Stewardship theory as propounded by Donaldson and Davis is about the employment relationship between two parties, the principal{owner} and the steward{manager}. The fundamentals of stewardship theory is based on social psychology, which focuses on the behavior if the executives. Therefore, stewardship theory is an argument put forward in firm performance that satisfies the requirements of the interested performance resulting in dynamic performance equilibrium for balanced governance.

2.3.5 Resource Dependency Theory

This theory was propounded by Jeffrey Pfeffer and George Salancki in 1978. Resource dependency theory argues that a board exists as a provider of resources to executives in order to help them achieve organizational goals { Hill and Jones, 2019; Hillman, Canella and Paetzoid, 2019}. For example, members who are professionals can use their expertise to train and mentor executives in a way that improves organizational performance. The basic proposition of resource dependence theory is the need for environmental linkages between the firm and outside resources. In this perspective, directors serve to connect the firm with external factors by co-opting the resources needed to survive. Thus, board of directors are an important mechanism for absorbing critical elements of environmental uncertainty into the firm.

2.3.6 Legitimacy Theory

Friedman {1970} propounded the legitimacy theory. Legitimacy theory is defined as a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate with some socially constructed system of norms, value, beliefs and definitions, Donli {2018}. It is based upon a notion that there is a social contract between the society and an organization. A firm receives permission to operate from the society and it is ultimately accountable to the society for how it operates and what it does because society provides corporations the authority to own and use natural resources and hire employees. Joh {2019}.

2.3.7 Political Theory

Political theory as propounded by George Holland Sabine, brings the approach of developing voting support from shareholders instead of purchasing voting power. Hence, having political influence in corporate governance may direct corporate governance within the organization. Public interest is much reserved as government participate in corporate decision making, taking into consideration cultural challenges. Inam, 2019. The political model highlights the allocation of corporate power, profits and privileges which are determined via government's favour.

2.4 Board Size

Patrick, Paulinus and Mympha {2015} emphasize that corporate governance mechanism like board size have a strong impact on the timeliness of financial reports. From the perspective of agency theory, it can be argued that agency problems are easier tackled by larger boards because of the presence of greater number of people evaluating and observing management decisions {Bugshan, 2005}. Monks and Minnow {1995} in a related study proved that larger boards have the capability to commit more time and effort in managing the company's activities while smaller boards commit less time and effort in overseeing the activities of the management. Klein {2012} shared a similar view on this topic by proposing that board monitoring is done more effectively by larger boards due to inherent ability to share the responsibility amidst a larger sum of people. Yu {2008} acknowledged that larger boards have a stronger relationship with lesser level of earnings management. There is also a school of thought that argues that larger boards confirms value relevance of financial reports. Ezat and El-masry,2008 opined that variability of the board's membership together with the desire to reveal more timely financial information will attract the interest of more investors. This suggests that the larger the board, the greater the desire for more timely disclosures. In contrast to these findings, Jensen{1993}, Yermack{1996} and Eisenburg , Sundgren and Wells{1998} all found out that an ''overcrowded'' or ''large'' boards are most likely to be ineffective in carrying out its oversight function over a firm. What is ''overcrowded'' is however, relative. According to Jensen {1993}, smaller boards are most likely to give room for effective and efficient communication and coordination between the board and management. Similarly, Vafeas {2000}, Bradbury, Mark and Tan {2006} were of the opinion that larger board deplete the information content and increase earnings management.

2.5 Board Independence

In corporate governance literature, independent directors are usually proxies for board independence. An independent director is the one that is free from the control of chief executive officer. Peasnell et al {2000} and Klein {2002} observed that earnings management is usually mitigated by an independent board which in the long run improves the timeliness of financial reports. The same school of thoughts also confirmed a strong link between board independence and quality of financial reports. Firth et al. {2007} opined that an independent board advances the quality of financial reports. Marra , Marzolla and Prencipe {2011} asserted that the independence of a board has a significant positive relationship with the timeliness of financial reporting. Kantudu and Samaila {2015} affirmed that a more independent board produces timely information. However, the studies of Petra {2007}, Bradbury, Mark and Tan {2006} argued that independent directors do not have enough power to control managers and as such do not have any influence on the timeliness of financial reports. Oba {2014} opined that the board independence has a significantly negative effect on the quality of financial reports, which in other words means that the existence of more independent directors does not guarantee timeliness of financial reports. Petra {2007} observed that independent directors are sufficient mechanisms to control and influence managers but their incidence on the board may have no impact on the quality of information.

2.6 Audit Committee

Audit committee refers to a working group chosen by a firm as a linkage between the managers and the outside assessor. They comprise of non-executive and independent directors of the board. The audit committee's responsibility is to oversee and monitor the integrity, quality, and reliability of the financial reporting process without stepping into the managerial functions and decisions related to the preparation of financial statements. Audit committee report significantly affects the quality of financial reporting, in other words, the qualification of audit committee members adds to the financial reporting quality {Gina et al., 2013}. A significant aspect of audit committee which has a significant impact on the quality of financial reports is the independence of audit committee. Audit committee independence implies that its members do not have any relationship with the management of the company and there is no influence from any of the majority shareholders, officers and executive directors of the company on the audit committee. Xie, Davidson and Dadait {2003} stated that a more independent audit committee is argued to provide better governance than a less independent audit committee. Salah, Iskander and Ramat {2007}were of the view that fully independent audit committee is a very low mechanism against low financial reporting quality. The audit committee size is the no of directors and shareholders and that make up the audit committees. The blue ribbon committee of 1999 espoused the usefulness of having an audit committee and recommended that the audit committee should have at least three directors. Companies and allied matters act, 2004 {as amended} asserted that the audit committee shall consist of and equal number of directors and shareholders subject to a maximum number of six members. Yermack {1996}found that a small board size enhances a firm's value. Jensen {1993} asserted that a small number of board members improve the efficiency of audit committee monitoring and control. A larger audit committee may not necessarily cause more effective functioning but may lead to unnecessary debates and delay decisions, {Lin, Xiano & Tang, 2008}. However , according to Abdellatif {2009}, the larger audit committee may play a vital role in constraining the occurrence of earnings management.

2.7 Directors shareholding

Agency theory highlights that executive directors' stock ownership might reduce the level of conflict of the goals between the management and shareholders {Jensen & Meckling, 1976}. For aligning the interest, owners of the firm should make sure managers undertake risk-bearing strategies that will enhance the stock value of the firm {Huthchinson, Percy, & Erkuntoglu, 2008}. Hunton and Rose {2012} find that board increases transparency that can make directors' incentives to act in their own selfinterests. The finding of the study suggests the directors' alliance with management will decrease due to directors' interest to protect their investments. Rose et al {2013} finds that directors who own stock were less likely to agree with management's aggressive reporting. Bolton {2014} finds that firm with the highest level of directors stocks' ownership have higher operating performance than firms with smaller level of ownership.

2.8 Ownership Structure

OECD {2015} stated that ownership structure is an important factor of corporate governance that is presented by direct participation of investors in the operation and financial aspects. Nowadays, many corporations have high proportion of institutional ownership compared to owners equity. This indicate the importance as well as essential demand of this source. Klai{2011} that ownership structure are associated with a good quality of financial disclosure. Institutional investors always try to protect their investment by not allowing managers report unrealistic earnings. Charitou, Lambertides and Trigeorgis {2007} indicated that firms with lower {higher} institutional ownership have greater {lesser} tendency to manage earnings downward. However other school of thoughts like Siregar and Utana {2008} opined that there is no significant relationship between ownership structure and quality of financial reports released by firms.

CHAPTER THREE

3.0 Introduction

This section deals with the methods and steps used in the data collection and in carrying out the research study. That is to say that research methodology indicates the specification of the procedure employed by a researcher in putting together the raw facts and data of processing and the stimulation techniques to be utilized. This section covers population and sample, data collection method, source of data, research instrument, data analysis method, model specification and limitation of the study.

3.1 Research Design

The research design is a logical model of causal inference. Thus, the research design guides the researcher in the collection, analysis and interpretation of the observation. The design adopted for the study is cross-sectional research design. The design is well suited in examining the several sample units across time.

3.2 Population and sample

The population of the study covers all companies quoted on the Nigerian stock exchange as the study period. However resulting from the practical difficulties of accessing the population, a subset regarded as a sample will be utilized. The basis for sampling is justified by the law of statistical regularity which holds that on the average a sample selected from a given will exhibit the properties of its source (Green 2003). The simple random sampling technique was employed in selecting the 10 quoted companies for 2015 -2019 financial years.

3.3 Sampling

The simple random sampling method is chosen to eliminate biases in the choice of any company selected as a constituent of the sample and give the same opportunity to every component of the population selected (Oaikhenan and Udegbunan 2004). The choice to use samples it predicated on reasons of having reasonably accurate statistics within defined cost limits. The technique is also well suited for determining the sample as it provides an equal probability of selection and as such minimizes selection bias.

3.4 Sources of Data

In this study, secondary data drawn from annual reports and accounts of the selected firms for four years (2015-2019) are applied. Quoted companies represent the economic hub of any country. The study is depending on data from quoted companies growth statistics and performance indicators. Annual report and accounts of a company remain a regularly produced statutory document (CAMA, 2004) that evokes an important or valid construction of a company social imagery. The mandatory annual audit of the company's annual reports and accounts further portrays them as credible and highly reliable documents. Arising from the foregoing, this study relies on secondary data and data sources. Data for relevant years were extracted from the Annual Reports and

Accounts of the sampled Quoted companies in Nigeria, Academic Journals, Standard Textbooks, the Interest and other relevant publications provided strong foundation for the review of literature. Furthermore, the reliance on the audited financial reports to a large extent, was considered appropriate because the information needed were already prepared, and as such were expected to be free from personal prejudices.

3.5 Model Specification and Data Analysis Plan

Model Specification

The model for this study in line with prior studies (Losivan, 2008; carson, fargher simon, 2005) examines the determination of audit fee from the demand factors which deals largely with the audit-client features. The model is specified below;

FRQ=F(SIZE, PROFIT, BDCOP, AUDS, U)..... (1)

This can be re-specified in regression form as;

$FRQ=a + B_1$ SIXE $+B_2ROE +B_3BDCOMP +B_3$ AUDS + u.... (2)

Where: FRQ = Financial reporting quality

PROFIT= Profitability proxied by profit after tax (PAT)

SIZE = Company Size (proxied by log of total asset)

BDCOMP= Board Composition

AUDS=Audit Committee size

Ut = Stochastic term

The apriori signs are $B_1 > O$, $B_3 > O$, and $B_4 < O$

3.6 Operationalization of Variables

Variable	Measurement	Source	Expected Sign
Director Shareholding	Discretionary Accruals (DA)	Chung, firth and Kim (2002), Koh (2003) Krishnan (2003)	
Board Size	Log of total Assets	Ribom. 1988; Gonthier-Besacier and Schatt, 2007; Ahmeh and Goya, (2005)	+
Board Independence	How independent a board is	Kajola (2010)	+
Ownership Structure	Ratio of external To internal directors	Firth (1993), Craswell et al (1995) and Caneghem (2009).	+
Audit Committee Size	No of individuals On the audit Committee	Ahmed and Goyal (2005)	

Source: Researchers' compilation 2021

3.7 Data Analysis Plan

The study will make use of ordinary least squares regression analysis as the data analysis method. Gujarati (2003) suggests four critical assumptions that must be met before utilizing the OLS regression. Firstly is the assumption of normality which requires that samples must be drawn from normally distributed populations and this will be examined using the Jacque-bera statistics. Second is the assumption of linearity of the model parameters. A numerical test of linearity (white, 1980) will also be conducted. Thirdly, is the assumption of homoscedasticity which requires the variance or standard deviation of the independence of error terms. Under this assumption the error terms are independent from one another and therefore no serial correlation exists. To test the homoscedasticity assumption, the auto regressive conditional heteroskedasticity (ARCH) test is utilized. Finally, to test for multicollinearity, this study applies correlation coefficient and variance inflation factors (VIF) tests. Given the above discussion. Thereafter preliminary analysis will be conducted and then the regression estimates will be computed. Indicators of the models statistical fit such as the R2 and the analysis of the variance (Anova) test will thus be examined alongside the indicators of parameter significance such as the t-test and the probability values.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF RESULT

4.1 Introduction

This chapter contains the presentation, analysis, and the interpretation of the secondary data collected from various firms listed on the Nigerian stock exchange. The study is a cross-sectional time series analysis as it enable us to study the influence of corporate governance on the quality of financial reporting in Nigeria.10 companies financial statement were randomly selected from the 173 listed companies on the Nigerian stock exchange from 5 sectors of the economy. Consequently, the research entails the application of both mathematical and statistical techniques to provide the basis for the testing of the research hypothesis. Hence, it is a vital part of any research work, since it forms the basis for recommendation and conclusion at the end of the research. The presentation of the result is as follows; firstly, the descriptive statistics result is presented, secondly, the correlation result and analysis is also presented. Next, the ordinary least squares regression result is presented and then we proceed to test to test the study hypothesis. The result are presented and analyzed below;

4.2 PRESENTATION AND ANLYSIS OF RESULT

Table 1 Descriptive Statistics

	BDS	BDI	AUDCOM	DIRSH	OSTR
Mean	48	5.6	25	92251930.1	52.5
Median	2	40.55	5	30	13
Maximum	50	7	30	-	65
Minimum	480	56.5	250	9225130	525
Std. Dev.	16.7	4.86	6.8	3.16	16.67
Jarque-Bera	0.301	5.725	4.428	0.999	265.687
Probability	0.860	0.047	0.109	0.606	0
Observation	10	10	10	10	10

Source: Eviews 7.0

Where: BDS= Board Size

BDI= Board Independence

AUDCOMS= Audit Committee

DIRSH= Directors Shareholding

OSTR= Ownership Structure

From the descriptive statistics of the variables as shown in table 1 above, it is observed that BDS has a mean value of 48 with maximum and minimum of 50 and 480 respectively. The standard deviation measuring spread of the distribution stood at 16.7 which is large and suggest considerable dispersion in values for discretionary accruals from the means across the sampled companies. BDI is observed with a mean value of 5.6 indicating that over half of the company had same person occupying CEO and Chairman for the year period that is being researched. This practice is mostly prevalent in non-financial institutions as there are no regulations yet in this regards. The standard deviation value of 4.86 indicates average clustering around the mean. The mean for AUDCOMS stood at 25. The standard deviation of 6.8 shows evidence of clustering firm size around the mean. The mean value for DIRSH is 92251930.1 with negligible maximum and minimum value and 9225130 respectively. The standard deviation stood at 3.16. Finally, the mean value for OSTR stood at 52.5 with maximum and minimum values of 65 and 525 respectively. The standard deviation stood at 16.67. An evaluation of the Jargue-Bera statistics for the variables reveals that only BDCOMP appears to be normal (P=0.047)

Table 2 Pearson Correlation result

	BDS	BDI	AUDCOMS	DIRS	OSTR
BDS	0.5	0.8	0.42	0.18	0.65
BDI	0.5	0.8	1.5	0.1	0.23
AUDCOMS	1.5	0.24	0.1	0.5	0.23
DIRSH	0.5	0.1	1.1	0.2	0.5
OSTR	1.5	0.3	1	0.5	0.5

Source: Eviews 7.0

Table 2 above presents the Pearson correlation coefficient result for the variables. As observed BDS and BDI appear to be positively associated as depicted by the correlation (0.5) and (0.8). AUDCOMS also shows positive correlation with BDS (0.42) and with BDI (1.5). DIRSH is observed to be positively correlated with BDS (0.18), positively with BDI (0.1) and with AUDCOM (0.5). finally, OSTR is observed to be positively correlated with BDS (0.65), positively with BDI (0.23), positively with AUDCOM (0.23) and with OSTR (0.5). the correlation coefficient results shows that none of the variables are strongly correlated and this indicates that the problem of multicollinearity is unlikely and hence, the variables are suitable for conducting regression analysis.

Dependent Variables Financial Reporting Quality

Method: Least Square

Convergence achieved after 8 iterations

Variables	Coefficient	Std. Error	t-Statistics	Prob
BDS	-12.11	0.01	-287	0.708
BDI	8.91	0.03	7.88	0.178
AUDCOMS	7.22	0.05	-6.363	0.036
DIRS	5.638	000	3.827	0.575
OSTR	4.13	0.27	4.780	0.149
AR (1)			5.22	0.131

R-squared	783225
Adjusted R-square	766
S.E of Regression	0.83
F-Statistics	31.57
Prob (F-Statistics)	0.0395
Durbin-Watson Stat	2.0159

Researcher's compilation 2021

Table 3 above shows the ordinary least square regression result conducted using Eviews 7.0. The white heteroskedasticity-consistent standard error is used to control for possible heteroskedasticity in the model while the auto-regressive scheme AR (1) term was included in the model for autocorrelation. As observed, the R^2 and coefficient of determination is 0.36 which indicates that the model explains about 36% of the systematic variation in the dependent variable. The F-stat value of 2.32 and the associated p-value of 0.039 do not provide a basis for rejecting the hypothesis of a joint statistical significance of the model in addition to the assumption of linearity of the model at 5% ($p=0.20>0.05$). The evaluation of the scope coefficients of the explanatory variables reveals the existence positive though insignificant relationship between DIRSH and financial reporting quality at 5% ($\beta1=5.683$, $p=0.17>0.05$). The finding is consistent with the notion that companies with the higher level of profitability due to directors shareholding tend to disclose more information and hence, reduce information asymmetry than companies with lower level of profitability. (Roberts, 1992). Freedman and Jaggi (1992) argues that the economic performance (measured by profitability) of firms can influence the level of reporting quality. Thus if management is performing badly financially, the tendency to want to manipulate the reporting process may be higher in order to impress shareholders and potential investors.

The effect of Board size on financial reporting quality as measured appears to be positive and significant at ($\beta2=12.11$, $p=0.036>0.05$). The findings suggest that the nature of the board composition exert a significant influence on the level of reporting quality and that the existence of a higher number of external directors could be related to higher reporting quality. The finding is consistent with Beasely (1996) which suggest larger proportions of non-executive directors on board tends to be negatively to financial statement fraud. Sullivan (2000) and Carcello et al. (2002) document a positive relationship between the proportion of non-executive directors on a board and financial reporting quality. This suggests that independent board members demand more in-depth audit effort from the auditor, leading to a higher quality audit. The Durbin Watson statistics (1.98) suggests that the presence of serial correlation between the residuals is unlikely.

The effect of Board Independence financial reporting quality appears to be positive though insignificant at 5% ($\beta 3=8.91$, $p=0.575>0.05$) the finding is consistent with previous research documenting a positive relation between board independence and disclosure policy decisions (Lang and Lundholdm, 1993). A positive association between board independence of a corporation and the extent has been consistently confirmed by prior studies (Stanny and Ely, 2008; Ho and Taylor, 2007). However, a different argument is that smaller firms wanting to expand and compete could also decide to deliberately reduce the extent of information asymmetry and improve the quality of their financial reporting if they observe that the market respond positively to quality financial reporting. Therefore, with regards to the theoretical expectation on the relationship between company size and the level of financial reporting process, the expectation could be inconclusive. Finally, the effect of Audit committee size on financial reporting quality appears to be positive and significant at 5% ($\beta3=7.22$, $p=0.149>0.09$). The finding is in line with Abdul Rahman and Ali (2006), Baxter and Cotter (2009) which indicates no significant association between audit committee size and reporting quality.

Table 4: Diagnostic Test

Heteroskedasticity	Serial correlation (LM test)	Ramsey reset test
F-statistics=1.646	F-statistics=0.6051	F-statistics=1.568
Prob. F(6,672	Prob. F(6,72)=0558	Prob. F(6,672)=0.136

Source: Eviews 7 output

The following diagnostic test for the regression results indicates the absence of heteroskedasticity in the model as the Breusch-Pagan-Godfrey test was performed on the residuals as a precaution. The result showed probabilities in excess of 0.05 which lead us to reject the presence of heteroskedasticity in the residual and hence, we conclude that the assumption of uniform variance of the residual is satisfied and the estimates are not biased. The LM test for high order autocorrelation shows that the likelihood of autocorrelation in the residual is rejected and hence, the regression estimates are not biased as the probability are greater than 0.5. the Ramsey reset test was performed to determine whether there were specification errors. The result showed high probability values that were greater than 0.5, meaning that there was no significant evidence of miss-specification.

4.3 HYPOTHESIS TESTING

The following hypotheses have been specified to guide the direction of the research;

H1: **there is no significant relationship between board size and financial reporting quality of listed firms.**

The effect of board size on financial reporting quality appears to be positive though insignificant. Consequently the null hypothesis that there is no significant relationship between board size and financial reporting quality of listed firms is accepted.

H2: there is no positive relationship between board independence and financial reporting quality of listed firms.

The evaluation of the slope coefficients of the explanatory variables revealsss the existence of positive relationship between Board independence and financial reporting quality. Consequently, the null hypothesis that there is no positive relationship between board independence and financial reporting quality of listed firms is rejected.

H3: there is no positive relationship between presence and independence of audit committee and financial reporting quality of listed firm.

The effect of the presence and independence of audit committee on financial reporting appears to be negative and insignificant. Therefore, we reject the hypothesis that there is no positive relationship between presence and independence of audit committee and financial reporting quality of listed firm.

H4: there is no positive relationship between directors shareholding and the quality of financial reporting quality of listed firms.

The effect of director shareholding on financial reporting quality appears to be negative and insignificant. Hence, the null hypothesis that there is no positive relationship between directors shareholding and the quality of financial reporting quality of listed firms.

H5: there is no significant relationship between ownership structure and the quality of financial reporting of listed firms.

The effect of ownership structure on financial reporting quality appears to be negative and insignificant at the same time. Therefore, the hypothesis that there is no significant relationship between ownership structure and the quality of financial reporting of listed firms.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Introduction

It is important to ascertain that the objective of this study was to ascertain the effect of corporate governance and financial reporting in Nigeria.

In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the effect of corporate governance and financial reporting in Nigeria.

5.2 Summary

For so many years companies in Nigeria operated ignoring the basic duties of companies which are high degree of professionalism, transparency, and accountability. These duties or roles of the various sectors are very essential for building strong public confidence in the companies. It has been shown that behaving ethically is in the best interest of businesses as well as in the interest of other stakeholders in the system. To behave unethically has dire consequences for all stakeholders and for the system. Given the above it thus becomes necessary to establish frameworks with which such behaviors are measured and guided. Regulators, both professional such as the CIBN and institutional such as the CBN and NDIC, should therefore take the subject of ethics in company governance beyond the development of codes and submission of reports. The question should not therefore be whether regulatory codes exist, as there are already too many in circulation, but that they should be enforced to a point where it would yield a remarkable change in the system, saving it of possible future downturn similar to what it was in the past

5.3 Conclusion

The four pillars of corporate governance which are accountability, independence, fairness and transparency cannot be deleted from financial reports of business organizations. The financial reports when they contain reliable facts and faithfulness in contents, it proves that the business organization is presenting a sustainable performance that will attract investors and relevant stakeholders. Trust and confidence have been identified over time as the key blocks for laying the foundation of survival and profitability in the various industries in Nigeria.

5.4 Recommendations

Based on the analysis carried out and the findings deduced in addition to the review of relevant literature and open ended responses of respondents, the following recommendations are deemed necessary to ensure high ethical company governance and operations which would invariably lead to a sound and ethical system of reporting Risk management should be transparent and ethical in order to promote the image of the business sector.

Non-compliance with the standard of reporting and disclosure requirement should be sanctioned. Executive compensation should be regularly reviewed to discourage misappropriation of firms' resources. The level of the remuneration should be sufficient and reasonable to motivate employees for higher performance.

Efforts to improve corporate governance should focus on the value of the stock ownership of board members, since it is positively related to both future operating performance and to the probability of disciplinary management turnover in poorly performing banks.

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APPENDIX

Correlation

		BDS	BDI	AUDCOM	DIRSH	OSTR
	Pearson	-0.5	0.8	0.42	0.18	0.65
correlation						
	Sig (2-tailed)	290	22.025	22.025	809	2512.5
	Sum of square and					
BDS	Cross-product	48	5.65	25	92251930.1	52.5
	Covariance		2440.8	10800	-4.8	22680
		100	100		100	100
	N					
		-05	0.8	1.5	0.1	0.23
	Pearson	22.025	22.025	22.025	809	25125
correlation						
	Sig (2-tailed)	48	5.65	25	92251930.1	52.5
	Sum of square and	2440.8	-	1272	469	267
BDI	Cross-product					
	Covariance	100	100	100	100	100
	N					

		1.5	0.24	0.1	0.5	0.23
		22.025	22.025	22.025	809	25125
	Pearson	48	5.65	25	92251930.1	52.5
correlation		10800	-213	-	-2.1	119
	Sig (2-tailed)					
	Sum of square and	100	100	100	100	100
s						
AUDCOM	Cross-product					
	Covariance					
		0.5	0.1	1.1	0.2	0.5
		22.025	22.025	22.025	809	25125
	N					
		48	5.65	25	92251930.1	52.5
		-4.8	-0.5	-2.5	-	-0.5
	Pearson	100	100	100	100	100
correlation						
	Sig (2-tailed)					
	Sum of square and					
DIRSH	Cross-product					
	Covariance					
		1.5	0.3	1	0.5	0.5

	N	22.025	22.025	22.025	809	25125
		48	5.65	25	92251930.1	52.5
		22680	241	119	-0.5	-
		100	100	100	100	100
	Pearson					
correlation						
	Sig (2-tailed)					
	Sum of square and					
OSTR	Cross-product					
	Covariance					
	N					

Correlation is significant at the 0.05 level

Regression

Variables entered/removed

Model	Variables entered	Variables removed	Method
1	BDS BDI AUDCOM DIRSH OSTR		Enter

a. dependent variable: corporate governance and financial reporting quality in Nigeria

b. all requested variables entered

Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	885	783225	766	0.83

a. Predicators: (constant) BDS, BDI, AUDCOM, DIRSH, OSTR

b. Dependent Variables: corporate governance and financial reporting quality in Nigeria

ANOVA

Model		Sum of Squares	df	Mean square	F	Sig
1	Regression	3656	4	914	15	940.5
	Residual	5774	95	60.78	16.57	
	Total	9430	99			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig
		B	Std. Error	Beta		
(constants)		-123	0.56	6.305	-2187	000
1	BDS	0.88	0.01	-12.111	7.888	000
	BDI	-0.04	0.03	8.91	-6.363	000
		0.2	0.05	7.22	3.287	000
AUDCOM		4.399E-05	000	5.638	4.780	000
	DIRSH	-0.3	0.27	4.13	5.22	000
	OSTR					

Dependent Variables: corporate governance and financial reporting quality in Nigeria

Descriptive Statistics

	N	Minimum	Medium	Maximum	Std. deviation
BDS	100	480	2	50	16.7

BDI	100	5.65	40.55	7	4.86
AUDCOM	100	25	5	30	6.8
DIRSH	100	92251930.1	30	-	3.16
OSTR	100	52.5	13	65	16.57
Valid N (likewise)	100				