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Effect of Corporate Governance Attributes on Financial Reporting Quality of Listed Non-Financial Firms in Nigeria

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Abstract*: The quality of financial reporting is one of the major concerns among stakeholders of quoted companies across the globe. This is because financial reporting has long been a critical technique of conveying to outsiders the results of activities and events that have occurred within the accounting period the main objective of the study was to examine the moderating effect of risk management committees on corporate governance structure and financial reporting quality of listed non-financial firms in Nigeria. The study adopted the positivist research philosophy and a descriptive ex post facto research design. The purpose of this approach to research is to establish causal or functional relationships among variables to examine the effect of corporate governance structure on financial reporting quality of listed non-financial firms in Nigeria while relying on secondary data, which are quantitative in nature to be obtained in respect of the study's population necessary to explain relationship which subsists among the variables. The study employs panel multiple regression with the aid of stata 16 to analyze the data. This tool is appropriate for this study because it seeks to establish a causal relationship between multiple independent variables and a dependent variable. From the findings, the study concluded that audit committee and risk management committee are indeed viable governance strategy aimed at improving the financial reporting quality through the scrutiny of the assessment and disclosure of risks inherent in the company. From the findings and conclusion, the study recommended that Board of Directors of non-financial companies should increase their monitoring capacity towards discretionary accruals by making the entire audit committee members experts in accounting and finance. This is because the fraudulent financial reporting comes with a lot of managerial discretions through earnings management activities.*

Keywords: *Board attributes, Audit committee Characteristics, Financial Reporting Quality.*

1.0 introduction

Financial reporting quality is crucial in maintaining the efficiency of financial markets because market participants, such as investors, lenders, and regulators, rely on financial reporting information to make decisions (Tang, Chen & Lin, 2016). Corporate governance has been recognized as a central feature of modern corporations today as it is one of the instruments of financial reporting quality. Corporate governance is the set of policies, processes and rules that affect the way a corporation is directed or managed. Corporate governance includes the relationships between many stakeholders involved and goals for which the firm is governed as well.Substantially, the value of corporate governance risen dramatically in 2002 when a chain of events culminated in the bankruptcies of several U.S. corporations and the losses of thousands of jobs. Thus, the destiny of a firm as well as the economy, in general, is determined by the method firms are governed (Naser-Abdelkareem & Abusharbeh, 2016).

Boards of directors have the main responsibility for corporate governance. They are responsible for setting strategic objectives, providing leadership, supervising the operating management, reporting to shareholders on their stewardship. The boards of directors are responsible, for appointing the internal auditors, and in turn the internal auditors are responsible for providing the board of directors with an internal and neutral check on all company aspects, either financial or non-financial. The shareholders are responsible for assigning the directors and the external auditors. So, they are responsible for satisfying themselves that a fitting governance structure is prepared. In addition, the external auditors are responsible for providing the shareholders with an external and impartial check on the financial statements which form the basis of that reporting system.

Thomsen (2006) stated that since the Cadbury Code was published in 1992, there has been a prompt global spread of corporate governance codes containing suggestions on boards, executive pay, disclosure, investor relationships and others. However, there was little or almost no scientific evidence to corroborate the recommendations; hence it is questionable whether they could be attributed to market failures. A company which embraces a sound board characteristic is in a strategic position to manage financial reporting quality, thus, the board structure constitutes a fundamental part of the corporate governance mechanism. Given such a scenario, it is crucial to consider the capacity of the board members in discharging their responsibilities. The risk management committee is receiving growing attention in this sustainability world, as the risk management committee establishes risk strategy, reviews risk reports and provides enterprise risk management advice to board members (KPMG, 2001). Weak financial reporting has been recorded in several mainstream corporate scandals in the past decades (Lobo & Zhou, 2006), and shareholders request high-quality reporting (Chhaochharia & Grinstein, 2007). Studies have already shown that companies or firms embrace high quality external and internal governance instruments to establish high quality financial reporting for shareholders, as well as better quality auditors (Srinidhi et al., 2014; PuchetaMartinez & GarcíaMeca 2014). The frameworks of corporate governance differ, however, depending on the country, indicating legal and business settings (Claessens & Yurtoglu, 2013).

It is premised on this background that this study focuses on the relationship between corporate governance attributes and the financial reporting quality of listed non-financial firms in Nigeria.

1.2 STATEMENT OF THE PROBLEM

In recent decades, the significance of corporate governance has increased exponentially. Sound corporate governance is considered to boost the value of companies as it can greatly reduce issues with agencies (problems resulting from the misbehavior of executives), and boost trust among investors (EL-Nabi, 2016), in addition, corporate governance is regarded not just to its ability to minimize the risk of fraud and corporate breakdown, but will also generate wealth through enhanced economic performance (Azizah & Islam, 2014). Although it has been proven globally that corporate governance is a useful internal control tool to develop the whole performance and despite the awareness spreading attempts about the significance of corporate governance, records of organizations failures keep on highlighting the significant part that corporate governance technique plays, particularly boards of directors, audit committees and ownership structure in organizations (EL-Nabi, 2016).

The latest international accounting scandals have contributed to further financial reporting quality criticism (Agrawal & Chadha, 2005). Various large firms like those of WorldCom, Parmalat, Marconi, were implicated in such corruption. The inability to include financial information has rendered it important to strengthen the financial reporting quality and even strong control of managers with a better-governing structure. (Brown & Caylor, 2006; Beekes & Brown, 2006; Karamaou & Vafeas, 2005). In the course of investment decisions, financial information directly aids capital investors. It benefits regulators, creditors, owners, and business partners, due to the fact that it not only demonstrates the firm's historical performance but nonetheless determines the prospective productivity prediction of the firm (Bushman & Smith 2001; 2003).

The risk management committee has recently increased in prominence, as it is regarded as a governance support mechanism to assist board members in sighting the process of risk management.

1.3 Objectives of the Study

The main objective of this study will be to examine the effect of corporate governance attributes on the financial reporting quality of listed non-financial firms in Nigeria. Other specific objectives of this study will be to;

i. Assess the effect of board characteristics on the financial reporting quality of listed non-financial firms in Nigeria.
ii. Determine the effect of audit committee characteristics on the financial reporting quality of listed non-financial firms in Nigeria.
iii. Determine the effect of Risk management committee characteristics on the financial reporting quality of listed non-financial firms in Nigeria

2.0 Literature Review

2.1 Concept of Corporate Governance

Corporate governance can be defined as a set of control mechanisms that an organization adopts to prevent or constraint potential self-benefiting managers from engaging in activities that harm the interests of stakeholders and shareholders (Larcker & Tayan, 2011). The laws, policies, and directives introduced by corporate governance affect a corporation's way of controlling and monitoring. It also enhances transparency and clarity in the relationship between the corporation and its stakeholders to obviate conflicting interests (Buallay *et al.,* 2017).
Corporate governance is defined as the system by which business corporations are directed and controlled. Effective application of corporate governance is expected to yield good financial reporting practices. The Organisation for Economic Cooperation and Development (OECD, 2004) revealed that corporate governance is the major tool in the improvement of economic efficiency, growth and enhancements of investor’s confidence. Also, corporate governance in organisations often attracts a reward from the capital market as it attracts more investment in such companies. The OECD principles focus on the protection of shareholders' right, treatment of shareholders in an equitable manner, stakeholders’ role in corporate governance, disclosure and transparency and board responsibility.

Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance comprises the long-term management and oversight of the company in accordance with the

principles of responsibility and transparency (Organisation of Economic Co-operation and Development, 2010). Corporate governance has been a recent source of interest to investors, policy makers and corporations especially after recent corporate scandals. Corporate governance has become an issue of global significance because its improvement is widely recognised as one of the essential elements in strengthening the foundation for the long-term performance of corporations (Ibrahim *et al.,* 2010).

2.2 Concept of Financial Reporting Quality

Financial reporting quality is a subjective concept that reflects the extent to which financial information is free of manipulation and accurately indicates an enterprise's financial position and operating performance (Tang *et al*., 2008). Biddle *et al*. (2009) defined financial reporting quality as the precision with which financial reports convey information about the firm's operations, in particular, its cash flows, in order to inform equity investors.

Financial reporting quality is emphasised by the Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB). However, no measurement method for quality has been universally provided and arbitrary techniques have been used by researchers in the evaluation of quality of financial reporting (Hassan & Omar, 2016). Accrual method, conservatism, value relevance and qualitative characteristics of financial statement have been generally applied by researchers. Financial reporting quality aims at transparency promotion, thereby presenting high-quality financial report (Hassan, 2013). Several empirical evidence uses influences on financial reporting as a measure of financial reporting quality, also indicating quality of financial reports is associated with various influences (Herath *et al.,* 2017).
Financial reporting quality is referred to as the precision with which financial reporting presents information about a firm's operation (Biddle *et al*., 2009). Financial reporting quality is assumed to be fundamental to the capital market, so information disclosure determines the efficiency with which resources are allocated. According to Bekiri and Doukakis (2011), users of financial statement are interested in the quality of earrings as well as the quality of reporting, because information influences their decision making.

Verdi (2006) defined financial reporting quality as the exact manner in which it shows information as regards a business activity and its anticipated cash flows, with the aim of informing the shareholders about a company's operations. Financial reporting quality also refers to the degree in which financial statement provides us with information that is fair and authentic about the financial position and performance of an enterprise. It can be deduced from the statement that financial statement to be regarded as possessing high-quality attributes. It must be able to provide authentic or genuine information about the economic performance, financial positions and operations of cash flows with the aim of keeping shareholders and other stake holders informed of the entity's current situation.

Financial reporting quality is defined as an essential source of information for the decision-making processes of economic agents. Investors decide whether to purchase stock by analysing a firm's financial report (Claudia *et al*., 2011). Biddle *et al*. (2009) defined financial reporting quality as the precision with which financial report convey information about the firm's operations, in particular and its cash-flowing order to inform the equity investors.

Scoh and Irem (2008) defined financial reporting quality as the accuracy with which the reported financials of a 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 the quality of financial reporting. The Board in its conceptual framework defines quality financial reporting as that which meets the objective and qualitative characteristics of financial reporting. According to Chalaki *et al.* (2012), financial reporting quality is defined as the precision with which financial reporting conveys information about the firm's operations, in particular its expected cash flows that inform equity investors. Their definition is consistent with the Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 1 (1978) as cited in Ogbaisi *et al.* (2018) which states that one objective of financial reporting is to inform present and potential investors in making rational investment decisions and in assessing the expected firm cash flows.

Financial reporting quality is defined as the faithfulness of the information conveyed by the financial reporting process (Martinez-Ferrero, 2015). The word faithfulness is characterized by relevance, reliability, transparency and clarity (Jonas & Blanchet, 2000). Relevant information means that the financial statement should contain enough information useful to different users of the financial statements in assisting their decision making process and that the information is provided in a timely fashion when they are still "news". Reliability is what assures that the information is reasonably free from error or bias and that it truly represents what it is intended to represent. Information in a financial report will be reliable to the extent that users can depend on it to judge the economic conditions or events that it purports to represent (Shehu, 2013). Transparency means that the figures truly reflect the economic activities of the enterprise during the period. Clarity is focused on how the figures are presented. The format and language of presentation is also very important. Financial reporting should therefore provide information to help investors, creditors, and other users to project the amounts and timing of future cash flows to the enterprise (Waweru & Riro, 2013).

2.3 Empirical Review

Board Attributes and Financial Reporting Quality

Ajibulu *et al*. (2021) examined six characteristics representing the board of directors (size, independence, meetings, tenure, gender and expertise) of board of directors and their impact on the quality of financial reports. A correlational research design was used to examine the influence of board quality of financial reports using 12 listed deposit money banks. The finding suggests board has an enormous influence on the quality of financial reports. Specific findings show that financial reporting quality will be higher if the size of the board of directors is increased. However, board tenure and expertise lead to poor financial reporting quality. In addition, we do not find evidence that board independence, meetings and gender improve the quality of financial reports. Among other recommendations, the study suggests that the number of board members should be increased since evidence has shown that it enhances financial reporting quality, while the tenure of board members should be reduced since it decreases financial reporting quality. Farouk *et al*. (2019) examined the effect of the characteristics of the firm from the viewpoint of the structure of firm, structure of the board, structure of performance and structure of ownership variables on the quality of financial reporting in quoted Industrial goods companies in Nigeria proxied by Roychowdhury (2006) model. Correlational design was employed by the study using a panel balanced data of 11 companies which is the sample of the study for the period of 2011-2018. Multiple regression technique was used as analysis tool. Firm size, leverage, firm age and women

directors were established to have significant and negative effects on real earnings manipulation of quoted Industrial goods companies in Nigeria. Furthermore, board meetings and profitability significantly but positively influence the worth of financial reporting of companies, however, liquidity, growth and ownership structure proxies have weak influence on the financial reporting worth. The period covered ended in 2018 and a lot of development has been witnessed in research as far as financial reporting quality is concerned.

Adebiyi (2017) examined board composition and financial reporting quality using 15 deposit money banks in Nigeria from the period 2005 to 2016 using OLS regression. The proxies for corporate governance include board size, board meetings and board independence. The discretionary accruals were used as the proxy for financial reporting quality and found a positive relationship between board size and board independence and discretionary accruals and a negative relationship with board meetings. They recommended that the board size of banks should not be too large and meetings should be carried out on a regular basis so as to carry out their monitoring oversight functions.

Shiyanbola *et al.* (2020) investigated a combined effect of corporate governance components on financial reporting quality of quoted financial and non-financial firms in Nigeria. The study adopted ex-post facto research design. Purposive sampling technique was used to select 30 quoted financial and 30 quoted non-financial firms in Nigeria of 161 listed companies on the Nigerian Stock Exchange for the period 2003-2017. The multiple regressions was employed to test the inferential statistics. Findings revealed that that board size, board independence and audit committee independence have a positive effect with financial reporting quality in quoted financial firms in Nigeria, while board meetings, audit committee size and audit committee meetings have a negative effect with financial reporting quality among selected quoted financial firms in Nigeria. In addition, there is evidence that board size and audit committee independence have a significant positive effect with financial reporting quality among selected quoted financial firms in Nigeria. The study concluded that corporate governance has significance effect on financial reporting quality of quoted financial and non-financial firms in Nigeria.

2.4 Audit Committee Attributes and Financial Reporting Quality

Sukma and Bernawati (2019) investigated the effect of audit committee characteristics on audit quality. The characteristics of the audit committee used in this study are the number of audit committees, number of audit committee meetings, audit committee education background, and audit committee experience while audit quality is measured using audit fees. This study uses manufacturing companies listed on the Indonesia Stock Exchange in 2016-2018 with 70 observation data and uses OLS regression. The results of this study indicate all four Audit Characteristics, only size and experience significantly influence audit quality. It was found that audit meetings and education do not significantly affect audit quality. Likewise, with the education that cannot ensure the capabilities possessed by members of the audit committee. Overall, the effectiveness of the audit committee has no significant effect on audit quality.

Adagye (2019) ascertained the impact of audit committee gender diversity on financial reporting quality of quoted deposit money banks in Nigeria. It is an ex-post facto research by design. The population of the study is all the Fifteen (15) quoted deposit money banks on the Nigerian Stock Exchange as at 31st December, 2016 which was narrowed down through a judgmental sampling technique to ten (10). Data relating to financial reporting quality were sourced from the annual

reports and accounts of the sampled banks. For analysis, the study adopted the Multivariate Regression Techniques, Pearson correlation coefficient was also used to test the relationship between gender diversity and financial reporting quality. The study found that gender diversity does not relate to financial reporting quality of Banks in Nigeria.
Alkilani *et al* (2019) investigated the role of audit committee characteristics on modified audit opinion in the context of Jordan. Four audit committee characteristics such as expertise, independent, meeting, and size were studied on modified audit opinion. The total sample of 117 listed companies on the Amman Stock Exchange was studied. The relationship among modified audit opinions, audit committee expertise, independent, meeting, and size as independent variables were analyzed using logistic regression. The audit committee characteristics are projected to effectively improve the quality of financial reporting, and thus, decrease the prospect of corporate in obtaining modified audit opinion. The findings according to the listed companies from 2012 to 2017 in Jordan showed that the number of meetings held has no significant effect on the modified audit opinion.

Asiriuwa *et al*. (2018) examined audit committee attributes and audit quality with emphasis on the specific requirements of the 2011 SEC code. The study applied the deductive approach via the ex-post facto research design and the Binary probit regression model in analyzing the various hypotheses put forward in study. Data used for the study were gathered from 150 firm-year observations from the annual reports of quoted companies on the floor of the Nigerian Stock Exchange. Findings from the study revealed that audit committee size, frequency of meetings, number of experts and overall effectiveness all have a positive relationship with audit quality. However, only size and overall effectiveness were significant in their relationship.

3.0 Methodology

Result and Discussion

Table 1: Descriptive Statistics

Variable |	Obs	Mean	Std. dev.	Min	Max
frq |	490	.1870754	.122498	-.812479	.504019
acgd |	490	2.120408	.6264385	1	3
acfe |	490	2.534694	.5646546	1	3
acs |	490	6.018367	.812523	4	9
acind |	490	2.389796	.6042606	1	3
rmc |	490	3.879592	.7290298	2	6
acgdrmc |	490	8.24898	2.976948	2	15
acfermc |	490	9.844898	2.948159	2	18
acsrmc |	490	23.34898	5.455776	8	45
acindrmc |	490	9.240816	2.831167	2	15

Source: STATA 16 output, 2024

The descriptive statistics show a summary of data for all selected variables for the 49 listed non-financial companies in Nigeria within the time frame of 10 years. The result shows that the average FRQ which is a measure of the extent of discretionary accruals is .1870 with a standard deviation of .1224. This figure indicates a low ratio of discretionary accruals. From the values of the minimum and maximum which stands at -.8124 and 5040 respectively is an indication of a low level of variability in the data. Regarding the independent variables, ACGD, the descriptive statistics shows a mean value of 2.1204 and a corresponding standard deviation of .6264. This shows that on average 2 members of the audit committee are female. The minimum is 1 while the

maximum is 3 suggests that there is a little degree of variance in the composition of female directors of companies in the area covered by the study. The descriptive statistics also indicate the mean of the ACFE to be 2.5346 which signifies that on the average it can be said that approximately of the companies have directors with financial expertise. This result has a range between 1 and 3 which show that the data is widely dispersed around the mean.

Table 6: Regression Result

R-sq: within = 0.5851
between = 0.6934
overall = 0.6892
Prob > F = 0.0000

frq	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
acgd	.0297952	.0099833	2.98	0.003	.0101733	.0494171
acfe	.1069335	.0085942	12.44	0.000	.0900418	.1238251
acs	.073066	.0035576	20.54	0.000	.0660737	.0800584
acind	.0938896	.007308	12.85	0.000	.079526	.1082531
rmc	.0434174	.0020505	21.17	0.000	.0393872	.0474476
acgdrmc	-.0005324	.000525	-1.01	0.311	-.0015644	.0004995
acfermc	-.005284	.0005589	-9.45	0.000	-.0063825	-.0041856
acsrmc	-.0035589	.0002679	-13.28	0.000	-.0040855	-.0030322
acindrmc	-.003542	.0004451	-7.96	0.000	-.0044169	-.0026671
_cons	.0026695	.0034711	0.77	0.442	-.0041529	.009492

Source: STATA 16, 2024

The regression results show that audit committee attributes indicate an overall R2 of 0.6892 which is the multiple coefficients of determination that signifies the proportion or percentage of the total variation in the dependent variable explained by the independent variables. Accordingly, the F-statistic p-value of 0.0000 which signify the fitness of the model. The regression result shows that audit committee gender diversity has a significant positive effect on financial reporting quality of listed non-financial firms in Nigeria, as can be seen from the coefficient of 0.22979 and a p-value of 0.003 which is statistically significant at all levels of significance. This means that 1% increase in audit committee gender would lead to 30% increase in financial reporting quality of listed non-financial firms in Nigeria while holding audit committee independence, financial expertise, and size constant.

Audit committee financial expertise has a positive and significant effect on financial reporting quality of listed non-financial firms in Nigeria. This is evidenced by the coefficient of 0.1069 and the p-value of 0.000 which is significant at 95% level of confidence. This means that 1% increase in audit committee financial expertise will result in 11% increase in the financial reporting quality of listed non-financial companies in Nigeria while holding audit committee gender diversity, audit committee size and audit committee independence constant. Given this outcome, the study has significant evidence to reject the null hypothesis which states that audit committee financial expertise has no positive and significant effect on the financial reporting quality of listed non-financial firms in Nigeria.

Conclusion and Recommendation

From the result audit committee showed that the risk management committee has an insignificant effect on the relationship between audit committee gender diversity and financial reporting quality

of listed non-financial companies in Nigeria. The study, therefore, concluded that audit committee gender diversity does not lead to improved financial reporting quality irrespective of whether such companies have independent risk management committee or not. The study again asserted that risk management committee has a significant effect on the financial reporting quality of listed non-financial companies in Nigeria. This study concluded that audit committee financial expertise is a necessary factor in determining the level of financial reporting quality when the companies have in place a risk management committee.. The study also concluded that audit committee independence has a significant relationship with financial reporting quality listed non-financial companies in Nigeria. This conclusion aligns with the assertion that risk management committees add more value to information content of financial reports making them better predictor of financial reporting quality.

``From the findings and conclusion, the study recommended that companies with audit committees need not insist on increased gender diversity to achieve credible financial reporting. This is based on the assertion that woman on the audit committee look out for risk factors and this role is evidently played by risk management committees of the board of directors. The Board of Directors of non-financial companies should increase their monitoring capacity towards discretionary accruals by making the entire audit committee members experts in accounting and finance. This is because fraudulent financial reporting comes with a lot of managerial discretions through earnings management activities.

This study recommends that the size of the audit committee be increased to at least nine members with the aim of including board members with diverse capabilities who can function effectively in advising management towards issues concerning credible financial reporting. Finally, it is recommended that more members of the audit committee should come from the independent non-executive directors as they possess the requisite experience and are more inclined to perform their fiduciary responsibility to the shareholders by encouraging credible financial reporting.

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