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AUDIT COMMITTEE ATTRIBUTES AND FINANCIAL REPORTING QUALITY OF SELECTED QUOTED CONSUMER GOODS FIRMS IN NIGERIA

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Abstract

The study examined the effect of an audit committee attributes and financial reporting quality of selected quoted consumer goods firms in Nigeria. Unlike many previous studies, this study employed the relevance of financial reports based on the time frame between the Accounting years the report was signed by the audit external auditor to measure financial reporting quality (FRQ). This study selected sample data from 15 quoted consumer goods firms in Nigeria Stock Exchange (NSE) covering the period of 2008-2019, which comprises of 180 firms in Nigeria. The study adopted correlation analysis and ex-post facto design to evaluate the effect of audit committee attributes measured by audit committee independence, financial expertise, meetings, size, audit fees with external auditor tenure and firm's size as control variable on the quality of financial reporting of quoted consumer goods firms in Nigeria. The decision on whether the *random effects (RE) model or fixed effects (FE) model was an appropriate model for this study depended on whether the individual effect was fixed or random. Hausman test was conducted to check which model is appropriate between fixed effects and random effects. The result of Hausman test revealed that fixed-effects model is appropriate as indicated by prob. (0.0181) less than 5% level of significance. The study concluded that audit committee independence is statistically insignificantly influenced the quality of financial reporting. The study recommended that audit committees should consist of members with knowledge of accounting and finance which provides a good basis for audit committee members to examine and analyze financial information.*

Keywords: Audit Committee Attributes, Audit Committee Independence, Financial Expertise, Audit Fees, Financial Reporting Quality

INTRODUCTION

Financial reporting plays a fundamental role in economic development either domestically or globally because it reveals financial indicators that inform investors' decisions (Nassar, Uwuigbe, Uwuigbe, Abuwa, 2014). More so, it helps to boost investors' confidence which is vital to the functioning of capital markets; consequently, determining the economic development of a nation (Herbert, 2013; Uwulomwa, Olubukola, Mosore, Jimoh and Rehimetu 2016). The main objective of financial reporting is to provide high quality financial information about economic entities that is useful for economic decision making. According to International Accounting Standard Board (IASB), (2008), high quality financial reporting is critical to investors and other stakeholders in making investment, credit and similar decision.

The financial scandals that led to the collapse of big companies across the globe and Nigeria in particular raised doubt and concern on audit committee effectiveness in preparation and readability of financial report within the time limit expected. The use of the outdated governance code has also adversely affected the performance of audit committee which lower the stock market efficiency and led to its crash in 2008 (Ikpang, 2008; Adeyemo, 2012). The Nigerian audit committee composition is made up of three equal number of non-executive directors and three representatives of shareholders under section 359(3and4) of the Companies and Allied Matters Act issued by the Corporate Affairs Commission (CAC) and part 'E' article 30 of corporate governance code issued by the Security and Exchange Commission (CAMA, 2004; SEC; 2011). Moreover, emphasis is placed by the new code on the board of directors' independence and shareholders as owners to oversee the financial reporting process; protect auditors' independence and influences the timeliness of financial report.

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 (Mustafa, 2012), Undeniably, the existence of an appropriately constituted audit committee is now a necessity for all listed companies in the United Kingdom and United States of America (Sarbanes-Oxley Act, 2002; The UK Corporate Governance Code, 2010) with corporate governance regulation placing significant importance on the role of AC. In Nigeria, the Securities and Exchange Commission (l999) issued a Code of Best Practices of Corporate Governance (2011), which provides for the establishment of an audit committee in public companies in Nigeria.

According to Wong (2012) the main role of an audit committee in any organization is to assist the board or a departmental head in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process, and the organizations process for monitoring compliance with laws and regulations. To perform its role an audit committee must be established and be empowered with the authority to perform its duties.

Statement of the Problem

The quality of financial reports has been questioned since the beginning of the past decade due to the collapse of firms soon after publication of juicy profits. This has necessitated the tightening of regulations, standards and modification of corporate governance mechanisms. Audit committee is one of those mechanisms introduced by regulators to ensure reliable and high quality financial reporting. (Duru, Nwakaego and Agodosi 2019). Audit committees have been in existence since the year 1939 Armitage & Brandley (1994). However, there have been several criticisms as to the importance of audit committee in enhancing financial reporting. In order for financial statement to be useful for decision making, it must show a true and fair view of the company statements of financial position and performance. However, this audit by independent auditors has over the years due to corporate failures lost its full potential and as such paved way for the same auditors to be check mated by an independent committee called the audit committee.

Despite the presence of audit committee, there have been several cases of manipulation of financial statements which suggest that the mere presence of an audit committee is not sufficient enough to mitigate the tendencies for financial statement manipulation by management. This study will therefore seek to find and establish the relationship between audit committee attributes and financial reporting quality of Fast Moving Consumer Goods companies (FMCG) in Nigeria.

Objectives of the Study

The general objective of the study is to examine the Audit Committee Attributes and Financial Reporting Quality of Selected Quoted Consumer Goods Firms in Nigeria. The specific objectives are to:

i. determine the extent to which audit committee independence affect the financial reporting quality of selected quoted consumer goods firms in Nigeria.
ii. examine whether there is any significant effect of size on financial reporting quality of selected quoted consumer goods firms in Nigeria.
iii. determine whether audit financial expertise have any impact on financial reporting quality of selected quoted consumer goods firms in Nigeria.
iv. find out the influence of level of attendance at audit committee meeting on financial reporting quality of selected quoted consumer goods firms in Nigeria.
v. determine the extent to which audit fees affect the financial reporting quality of selected quoted consumer goods firms in Nigeria.

Significance of the Study

In the reform platform, audit committees play a vital role in enhancing corporate governance in the public sector by providing oversight over the institutions governance, including the organizations system of internal controls. Therefore, an audit committee that operates effectively is a key feature in a strong corporate governance culture, and can bring significant benefits to the entity.

The study will also provide empirical findings that will be of importance to researchers and students in the areas of Finance, Accounting and Audit.

The findings will be used to improve understanding of the concept of audit committees in the public sector and suggest various ways of improving their effectiveness in their roles of vetting the quality and integrity of financial reporting quality.

Additionally, the study may result in an improved understanding of the relationships between the audit committee attributes and financial reporting. The study findings will be an addition to existing literature on audit committees in Nigeria as well as give comparison to similar past studies conducted in developed and developing economies on audit particularly for public sector entities.

LITERATURE REVIEW

Conceptual Review

Financial Reporting Quality

Financial reporting quality: S.334 (2) of CAMA 2020 as Amended 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 the users where a structure of review and authorization are put 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 Nature and Scope of Financial Reporting

Financial reporting according to Nzotta (2008) is a dire issue which affects decision making process of diverse stakeholders, corporate bodies, existing and potential investors and policymakers. Glautier and Underdown (2001) asserted that the primary objective of financial reporting is to communicate economic measurement of and information about resources and information about the resources held by the entity and performances of the reporting entity, useful to those having right to such information. According to Agwor and Okafor (2018), the fundamental objectives of corporate report is to communicate economic measurements and information about the performance of the reporting entity useful to those having rights to such information. Nzotta (2008) stated that financial reports assist users in assessing past and present performance of the organization and its ability to maximize wealth of shareholders. Besides, it evaluates the ability of the organization to create value and objective assessment of value created over time. Financial reports highlight financial information which provide insights into these resources held by an organization.

Audit Fees

The extent of the audit fee is basically elucidated by client attributes related to audit effort and audit risk (Turpen, 1995). Previous studies document that higher audit fees are related to lesser earnings management and higher financial reporting quality. This concept refers to the amount of remuneration paid to the audit firm for audit work done.

External Audit Tenure

After the occurrence of accounting scandals in the last decade, the Sarbanes-Oxley Act of 2002 requires mandatory rotation of audit firms at least once every five years. Several other countries also have similar requirements for mandatory rotation of audit firms. However, there are no such requirements of mandatory rotation of audit firm tenures in Pakistan. Therefore, in the current study, the determinants of financial reporting quality are further examined to understand the impact of auditor tenure. Particularly, this study provides a detail explanation on the association between audit firm tenure and accrual-based earnings management activities in a single country, like Pakistan. The results are also useful for regulators to monitor any earnings management activities. Congruent with prior studies (Malik, Arshed, Hassan, Rasheed, Kazmi and Gulzar, 2017; El Guindy and Basuony, 2018) the findings of this study suggest that longer audit firm tenures improves the audit quality and financial reporting quality of the firm.

Audit Committee Attributes

According to the Institute of Chartered Accountants in England and Wales (ICAEW), (2022) described the attributes of audit committee to include among others: intellectual curiosity with professional skepticism, courageous in making tough decisions, balanced and ethical approach to whistleblowing, oversight of key risks, excellent relationship builders, ability to build and develop a strong team, good listening skill, own the agenda and ability to challenge the external auditors. Each of these actions will allow the audit committee to operate effectively. Having an effective audit committee is essential for good corporate governance as being qualities indicative of an effective committee.

Audit Committee Independence and Earnings Management

After the events of the financial scandals of giant companies (such as Enron, WorldCom, and Xerox), investors require firms to provide truthful and reliable financial information (Fodio Ibikunle and Oba, 2013). For the audit committee to be fully independent and effective, the majority of the members must be non-executive directors (SEC Code, 2011). Carcello and Neal (2000) find a positive relationship between audit committee independence and the quality of financial reports. Abbott, Parker, Peters and Raghunandan (2003) and Klein (2002) find that audit committee independence has a negative relationship with misstatement and earnings management.

Audit Committee Size and Earnings Management

SEC Code (2011) provides no fixed number of the audit committee members and the audit committee size should be based on the company size. Audit committee size is the number of directors in the audit committee. Ghosh, Marra and Moon (2010)find that audit committee size influencing discretionary accruals at the pre- period. Fodio et al. (2013) report that audit committee size is significant and negatively associated with discretionary accruals. Vafeas (2005) reports that audit committee performance are determined by committee size. Xie et al. (2003) reveal an insignificant relationship between audit committee size and discretionary accruals. Musa, Oloruntoba and Oba (2014) find that audit committee size has no significant impact on the quality of financial reporting. It is hypothesized that: H_4: Audit committee size has a significant negative relationship with discretionary accruals in the pre- and post- code 2011.

Audit Committee Financial Expertise and Earnings Quality

Most of the global financial regulations mandate that at least one member of the audit committee should be a financial expert. And also, the provision of Companies and Allied Matters Act (CAMA) Section 359 (3) and (4) required that at least one board member of the audit committee should be financially literate. Apart from regulatory requirements, the existing literature also confirms that; for instance, Beasley *et al.* (2009) documented that audit committees also face incentives to effectively monitor managers in form of legal liability in reputational work. As such, financial expertise is directly linked with better financial reporting quality (Krishnan Visvanathan, 2008).

Audit Committee Meetings

Regulators and others have expressed a strong preference for an audit committee that meets frequently. The number of audit committee meetings reflects their monitoring effectiveness, and the literature uses frequency of meetings as a proxy to measure audit committee activity (Xie et al. 2003a; Lin et al. 2006). 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 this enable the audit committee to be more effective. Audit committees that meet more frequently are better informed about the company circumstances (Al-Matari 2013), and provide a more effective oversight and monitoring mechanism of financial activities, which includes the preparation and reporting of company financial information.

Financial Competence of Audit Committees

The rules of the United States Stock Exchange Commission (SEC) define an audit committee financial expert as a person who has each of five attributes pertaining to a sufficient understanding of accounting principles, financial statements, internal control, and audit committee functions. Knowledge in accounting and finance provides a good basis for audit committee members to examine and analyze financial information. The educational background becomes an important characteristic to ensure audit committees perform their roles effectively. Moreover, audit committees that comprise at least one financial expert have greater interplay with their internal and external auditors (Raghunandan et al., 2001).

Theoretical Review

Agency Theory

The agency theory explains the relationship between the agent and the principal. The principal assigns responsibilities to the agent to oversee the company. Often, contrived by greed (Ogoun, 2020), the agent may exhibit an individualized opportunistic behavior at the detriment of the principal. Individualized conduct creates a cost to the principal. Agency theory, as espoused and expounded by Jensen and Meckling (1976) viewed the inability of the principal to directly monitor or control the excesses of the agent, which possibly have an adverse effect, which would lead to agency cost. Agency theory claim that audit committee is the most significant internal governance mechanisms to reduce agency conflict among managers and owners (Komal and Bilal, 2016; Raweh, Kamardin and Malik, 2019) and ensures that better information flows between them by its overseeing function over the fundamental activities of business (Ika and Ghazali, 2012). The audit committee is also the most important internal observing tool that can ensure the quality and timeliness submission of financial reporting (Shukeri and Islam, 2012).

Stewardship Theory

Stewardship theory is a theory that makes managers to act as an accountable steward of the assets of the organization they control. Management pursuing their own self-interest at the expense of the shareholders who can spread their individual portfolio in the activities of companies should make it with a just judgment. This indicates the impact of agency theory as a portion of the growing organizational economic movement. Therefore, such views have been challenged whereby researchers have termed stewardship theory as a structure which assumes the managers are after maximizing organizational objectives (Donaldson, 1990a; Donaldson and Davis, 1991).

The Policeman Theory

The policeman theory claims that the audit and assurance process is responsible for searching, discovering and preventing fraud. This was the case in the early 20th century. However, more recently the main focus of this process has been to provide reasonable assurance and verify the truth and fairness of the financial statements. Turley and Zaman (2004) also pointed out that understanding the impact of audit committees as policemen could assist in formulating appropriate expectations about the audit committee function, based on which the effectiveness of audit committees could then be assessed.

Empirical Review

Akinleye, Olayeye and Aduwo (2019), empirically assessed the audit committee characteristics and firm performance in the London, U.K companies listed on the London Stock Exchange. The author findings revealed that audit committee has an impact on UK firm performance that is significant relationship existed between audit committee size, frequency of meetings, financial experience and firm financial performance. Furthermore, the result revealed that committee independence has negative correlation with firm performance. The study employed fixed effect panel data regression model to analyze the panel data using statistical program (E-Views), sample of 72 British non-financial companies listed in the London Stock Exchange included in FTSE 100 index that have audit committee and disclosed information necessary for our study, sample 72 non-financial companies chosen from different industries with exception of financial industry for period of 2011 – 2015. The result of the descriptive statistics showed that used correlation analysis, used fixed panel data regression.

Madawaki and Amran (2013) on the other hand, focused on audit committees and how they affect financial reporting in Nigerian companies. The study examined whether audit committees are associated with improved financial reporting quality for a sample of Nigerian listed companies prior to and after a corporate governance code mandated new regulations for audit committees in 2003. Using a sample of 70 companies listed on the Nigerian Stock Exchange, their study used archival data in the form of companies‟ annual reports to measure the association between audit committees and improved financial reporting quality. The results indicated that formation of audit committees was positively associated with improved financial reporting quality. It was also found that audit committees having an independent chair and audit committee expertise were positively associated with financial reporting quality. Other audit committee characteristics examined were found to be insignificantly related to financial reporting quality.

Raweh, Kamardin and Malik (2019) studied audit committee characteristics and audit report lag in Oman using data from 255 companies listed in the Muscat Securities market from 2013 to 2017. Multivariate analyses of their investigation showed that audit committee size positively associated with audit report lag and audit committee financial expertise reduces audit lag. However, their study did not find evidence that audit committee independence and meetings are associated with audit report lag. Therefore, they concluded that internal mechanisms of corporate governance in Oman are not effective compared to more developed nations and that policymakers in this emerging market should enforce motivate practices of corporate governance in substance rather than simply adhering to practices in the form.

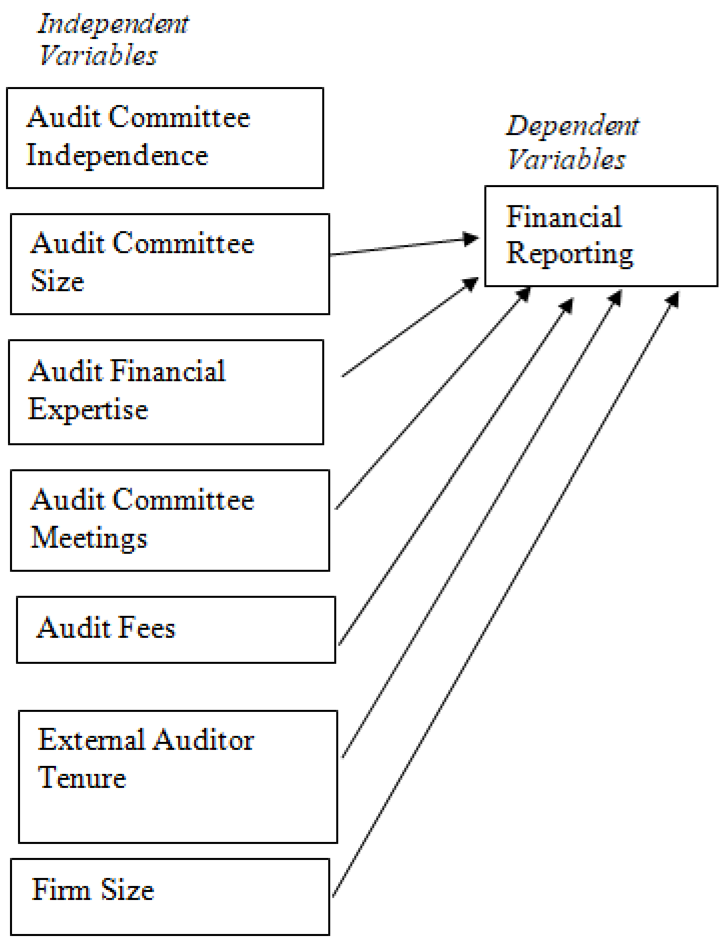

Figure 1: Conceptual Framework

METHODOLOGY

Research Design

This study employed quantitative research methods. Therefore, the study adopted correlation and ex-post facto design to evaluate the effect of audit committee attributes measured by audit committee independence, financial expertise, meetings, size, audit fees with external auditor tenure and firm's size as control variable on the quality of financial reporting of quoted consumer goods firms in Nigeria. Ex-post facto research design involves the assessment of the relationships between theoretically related variables, and to observe the effect of the independent variable(s) on the dependent variable, so as to establish the relationship. This study selected sample data from 15 quoted consumer goods firms in Nigeria Stock Exchange (NSE) covering the period of 2008-2019, which comprises of 180 firms in Nigeria. The rationale for choosing the period under coverage was as a result of corporate governance threat due to lack of disclosure, openness, accountability and unethical practices by board members in most consumer goods firms in Nigeria.

Population, Sampling Techniques and Sample Size

Population of this study consists of twenty – seven (27) consumer goods firms quoted on Nigeria Stock Exchange as at April, 2021. According to McDaniel & Gates the choice of the sample method depends on factors such as the nature of the research problem, the research objectives, cost and time limitations (McDaniel and Gates, 2008). However, the study employed random sampling technique to select fifteen 15 quoted consumer goods firms that have consistently been operating on the Nigerian Stock Exchange for the past twelve years from 2008 – 2019. Therefore, the study covered a total number of One hundred and eighty observations (i.e. 15 firm's x 12 years = 180). Consumer goods sector was chosen because it remains one of the most powerful engine for economic structure of countries as any country that engages in only trading (buying and selling) and not producing goods may face doom in the future (Duru 2014). The list of selected 15 firms is as given below:

Type and Source of Data

The study employed only secondary data which were obtained from the annual reports and statement of account of the selected consumer goods firms. Therefore, the method of data collection for these involves the financial statements (statements of financial position and income statements) of the sampled consumer goods firms for the period covered by the study (2008-2019).

Methods of Data Analysis

The study made use of both descriptive and inferential statistical methods for the analysis of data from the period of 2008 – 2019. The descriptive analysis involves the use of percentages, tabulation and graphical presentation while the inferential statistical method involved the use of panel econometric method called ordinary lease square (OLS), regression.

Panel data analysis was used in this study because it has inbuilt capacity to deal with time series issues including heteroscedasticity and autocorrelation and has the capacity to deal with issues of few data points for regression model while retaining entities' heterogeneity (Baltagi, 2005). Pre-estimation tests including analysis of descriptive statistics of the variables will be analyzed. The R^2 was observed to indicate significance of variables in the model and p-values to indicate the significance of model parameters (α, β) for each explanatory variable.

Model Specification

The study adopts similar model with the study of Abdul-Kareem. (2016), the model has been chosen because it helps in achieving the specific objectives of his study and in testing hypotheses earlier formulated in the chapter one. The functional specification of model will take the following form:

AUDFEE= f (ACIND, ACFEX, ACMET, ACSIZE, AUDFEE, fs)

The regression specification of model will take the following form:

$$QTYFNR_{it} = a_o + \beta_i ACIND_{it} + \beta_2 ACFEX_{it} + \beta_3 ACMET_{it} + \beta_4 ACSIZE_{it} + \beta_5 AUDFEEit + \beta_6 AUDTENit + \beta_7 FS_{it} + e_i$$

Where:

$QTYFNR$=Quality of Financial Reporting proxy for dependent variable

ACIND=Audit Committee Independence

ACFEX=Audit Committee Financial Expertise

ACMET=Audit Committee Meeting Per Year

ACSIZE=Number of Audit Committee

AUDFEE = Audit fees

AUDTEN = External Auditor Tenure

FS= Firm Size

it = Time subscript for panel data

μ = Error Term

α = Intercept

β1 – β7 = Coefficient of the Parameters

RESULTS AND DISCUSSIONS

Preliminary Analysis

Table 1: Descriptive Statistics

Variable	Observation	Mean	Std. Dev.	Minimum	Maximum
Quality of Financial Report (QTYFNR)	180	0.7713	0.0881	0.5300	0.9800
Audit Committee Independence (ACIND)	180	4.8000	1.6321	3.0000	8.0000
Audit Committee Financial Expertise (ACFE)	180	3.4611	0.6961	2.0000	5.0000
Audit Committee Meeting (ACMEE)	180	3.4556	0.6102	2.0000	4.0000
Number of Audit Committee (ACS)	180	4.4444	1.4693	2.0000	7.0000
Audit Fee (AUDFEE)	180	4.5502	0.5377	2.9956	5.9751
Audit Tenure (AUDTEN)	180	2.3944	1.1699	1.0000	5.0000
Firm Size (FS)	180	7.3246	0.8916	4.5806	8.6158

Table 1 depicted the descriptive statistics of all the variables used for this study. The dependent variable was quality of financial report (QTYFNR), while the independent variables used were audit committee independence (ACIND), audit committee financial expertise (ACFE), audit committee meeting (ACMEE), number of audit committee (ACS), audit fee (AUDFEE), external audit tenure (AUDTEN), and firm size (FS) as control variable covering the period 2008 to 2019 for selected quoted consumer goods firms in Nigeria. As shown in the table, QTYFNR has a mean value of 0.7713 with maximum and minimum values of 0.9800 and 0.5300 respectively. This implies that the average financial report of the sampled consumer goods firms in the country for the period was substantially high. The mean value of ACIND was 4.8000 which indicates a considerably low audit committee independence in the sampled consumer goods firms. More so, the mean value of ACFE was 3.4611 with the maximum and minimum values of 5.0000 and 2.0000 respectively, which indicates that an average consumer goods firm in the country has an audit committee with substantial financial expertise. Observably, ACMEE has a mean value of 3.4556 with maximum and minimum values of 4.0000 and 2.0000 respectively, this implies that most of the audit committee of the sampled firms meets regularly. Furthermore, ACS has a mean value of 4.4444 with maximum and minimum numbers of 7.0000 and 2.0000 respectively. The average value of AUDFEE measured by natural log of the firms' audit fees was 4.5502 with maximum and minimum values of 5.9751 and 2.9956 respectively. More so, the average value of the external audit tenure of the sampled firms was 2.3944 with the longest tenure being 5.0000 and shortest being 1.0000. The mean value of FS equally measured by the natural log of the firms' total assets was 7.3246 with maximum and minimum values of 8.6158 and 4.5806 respectively.

Correlation Analysis

Table 2: Correlation Matrix

VARIABLES	QTYFNR	ACIND	ACFE	ACMEE	ACS	AUDFEE	AUDTEN	FS
QTYFNR	1.0000							
ACIND	-0.1418	1.0000						
ACFE	-0.0433	0.1849	1.0000					
ACMEE	0.0993	-0.4409	-0.1027	1.0000				
ACS	0.1497	-0.6225	-0.1469	0.4770	1.0000			
AUDFEE	0.0116	0.3538	0.1533	-0.1842	-0.3087	1.0000		
AUDTEN	-0.0059	-0.0023	-0.0394	-0.0575	-0.0213	-0.0760	1.0000	
FS	0.1709	-0.4399	-0.2169	0.1487	0.4214	-0.0822	0.0089	1.000

Table 4 displayed the correlation matrix of both the dependent and independent variables of this study. This is to measure the linear relationship between these variables (QTYFNR, ACIND, ACFE, ACMEE, ACS, AUDFEE, AUDTEN and FS). This correlation matrix reflects the relative strength of the linear relationship between these variables. According to Gujarati (2004), linearity could only be a problem if the pair-wise correlation coefficient is above 0.80. However, it is obvious that the variables in Table 2 are orthogonal.

Regression Analysis

Table 3: Regression Result for Effect of Audit Committee Attributes on the Quality of Financial Reporting of Quoted Consumer Goods Firms in Nigeria

Variable	Pooled OLS	Fixed Effect Model	Random Effect Model
Constant	0.5904	-0.7768	0.3668
	(0.000)*	(0.725)	(0.018)*
ACIND	-0.0003	0.0063	0.0018
	(0.976)	(0.006)*	(0.871)

ACFE	-0.0008	0.0104	0.0032
	(0.938)	(0.418)	(0.777)
ACMEE	0.0069	-0.0209	-0.0071
	(0.578)	(0.190)	(0.613)
ACS	0.0051	0.0077	0.0081
	(0.670)	(0.520)	(0.485)
AUDFEE	0.0099	0.0452	0.0373
	(0.457)	(0.008)*	(0.015)*
AUDTEN	0.0001	-0.0008	0.0001
	(0.980)	(0.872)	(0.981)
FS	0.0128	0.0843	0.0277
	(0.130)	(0.003)*	(0.047)*
F-Statistic	1.06	3.60	
	(0.3929)	(0.0013)*	
Wald X^2			13.23
			(0.0667)
Hausman Test		16.90	
		(0.0181)*	

Table 3…

*denotes 5% level of significance.

Conventionally, the procedural flow for regression analysis is to run the pooled ordinary least square (OLS) model, fixed effect (FE) model, as well as random effect (RE) model, and decides which of these models is the appropriate model for this study. The decision on whether the random effects (RE) model or fixed effects (FE) model was an appropriate model for this study depended on whether the individual effect was fixed or random. Hausman test was conducted to check which model is appropriate between fixed effects and random effects. The result of Hausman test revealed that fixed-effects model is appropriate as indicated by prob (0.0181) less than 5% level of significance.

Therefore, Table 3 shows the result of the pool OLS, fixed-effects and random-effects models for effect of audit committee attributes on financial reporting quality of quoted consumer goods firms in Nigeria. The R^2 value of 0.1376 (14%) implies that about 14% of fitness was observed in the sample regression line. More so, about 14% of the total variation in the financial reporting quality of the sampled consumer goods firms is explained by the independent variables (ACIND, ACFE, ACMEE, ACS, AUDFEE, AUDTEN, and FS) jointly. The F-statistic (7, 158) = 3.60 and P-value 0.0013 indicates strong statistical significance at 0.05 level of significance, as well as lend credence to the reliability and validity of the model. The description of each explanatory variable in relation with the explained variable (QTYFNR) is as follows.

Using the fixed-effect model result as indicated by the Hausman test result, it is observed that, the effect of audit committee independence on the quality of financial reporting is positive (0.0062) and statistically significant with P-value of 0.006 at 5% level of significance. This suggests that audit committee independence will influence the quality of financial reporting of the sampled firms positively and statistically found to be significant. The effect of audit committee financial expertise on the quality of financial reporting is equally found to be positive (0.0103) but statistically insignificant with P-value of 0.418 at 5% level of significance. This suggests that audit committee financial expertise of the sampled firms positively influence the quality of their financial reporting, but statistically insignificant. On the contrary, audit committee meeting has a negative (-0.0209) effect on the quality of financial reporting of the sampled consumer goods firm in the country and insignificant statistically with P-value of 0.190 at 5% level of significance. More so, the effect of audit committee size on the quality of financial reporting of the sampled quoted firms in Nigeria is equally positive (0.0077) but statistically insignificant with P-value of 0.520 at 5% level of significance. However, the effect of audit fee on the quality of financial reporting of the sampled quoted consumer goods in Nigeria was found to be positive (0.0452), and statistically significant with P-value of 0.008 at 5% level of significance. Furthermore, the effect of external audit tenure on the quality of financial reporting of the sampled firms was found to be negative (-0.0008), but insignificant statistically with P-value of 0.872 at 5% level of significance. The effect of firm size on the quality of financial reporting is positive (0.0843) and statistically significant with P-value of 0.003 at 5% level of significance. This suggests that firm size positively influences the quality of financial reporting of the sampled quoted consumer goods firms in Nigeria.

SUMMARY

The summary of the major findings are here presented based on the specific research objective. Audit committees have a long standing and important role in the governance framework of public sector entities. They are recognized as a valuable provider of independent assurance and advice to the responsible authority on key aspects of an entity's operations. This study sought to establish an audit committee's attributes and financial reporting quality of selected quoted consumer goods firms in Nigeria. Specifically, the study examined the effect of audit committee independence, audit committee size, audit committee financial expertise, audit fees and on financial reporting quality external audit tenure of selected quoted consumer goods firms in Nigeria. The study adopted a positivism philosophy. Positivists believe that reality is stable and that it can be described from an objective viewpoint, without interfering with the phenomena being studied. Thus, the total (27) consumer goods firms in Nigeria Stock Exchange and the study will employ random sampling techniques to select 15 quoted consumer goods firms quoted in Nigeria Stock Exchange covering the fiscal year of 2008-2019 (12 years)and (180) observation respectively. The study relied on secondary data because the hypotheses of the study and the estimation of the models of the study require the use of correlation and regression data. Therefore, the method of data collection for these involves the financial statements (statements of financial position and income statements) of the sampled consumer goods firms for the period covered by the study (2008-2019) respectively. The study considers choice of source of data collection reliable as every quoted company is required to prepare its financial statements in accordance with approved accounting standards as applicable in Nigeria. Approved accounting standards comprised of such International Financial Reporting Standards (IFRS) 2012. Issued by the International Accounting Standard Board (IASB).

Audit Committee independence does not exerts significant effect on financial reporting quality. it is observed that, the effect of audit committee independence on the quality of financial reporting is positive (0.0062) but statistically insignificant with P-value of 0.611 at 5% level of significance. This suggests that audit committee independence will influence the quality of financial reporting of the sampled firms positively, but this is found to be statistically not significant.

There is no significant relationship between audit committee size and financial reporting quality. The effect of audit committee size on the quality of financial reporting of the sampled quoted firms in Nigeria is equally positive (0.0077) but statistically insignificant with P-value of 0.520 at 5% level of significance. However, the effect of audit fee on the quality of financial reporting of the sampled quoted consumer goods in Nigeria was found to be positive (0.0452), and statistically significant with P-value of 0.008 at 5% level of significance.

Audit committee financial expertise does not have significant effect on financial reporting quality. The effect of audit committee financial expertise on the quality of financial reporting is equally found to be positive (0.0103) but statistically insignificant with P-value of 0.418 at 5% level of significance. This suggests that audit committee financial expertise of the sampled firms positively influence the quality of their financial reporting, but statistically insignificant.

The level of attendance at audit committee meeting has no significant relationship with financial reporting quality. The effect of external audit tenure on the quality of financial reporting of the sampled firms was found to be negative (-0.0008), but insignificant statistically with P-value of 0.872 at 5% level of significance. The effect of firm size on the quality of financial reporting is positive (0.0843) and statistically significant with P-value of 0.003 at 5% level of significance. This suggests that firm size positively influences the quality of financial reporting of the sampled quoted consumer goods firms in Nigeria.

Audit fee has no significant relationship with financial reporting quality of quoted consumer goods firms in Nigeria. The effect of audit fees on the quality of financial reporting of the sampled quoted firms in Nigeria is equally positive and significant effect on the quality of financial reporting, as indicated by marginal effect coefficient (0.0452) with p-value (0.008) at 5% level of significance.

CONCLUSIONS

The study concluded that audit committee independence is statistically insignificantly influenced the quality of financial reporting. Based on these findings the study concluded that an independent audit committee plays its role better as compared to non-independent committees and one benefit of this independence is to improve the quality of financial reporting. Inclusion of non-executive committee members ensures that there are no conflicts of interests hence ensuring shareholders‟ interests supersedes self-interests.

The study further concluded that audit committee member's financial expertise is statistically insignificant on the quality of financial reporting. Expertise individuals are key in identifying when the financial reports deviate from the quality standards. Finally, this study also concluded that having quality and optimal number of meetings by the audit committees improves quality of financial reporting. This is achieved when the attendance is good, agenda is relevant and the number of meetings is optimal.

From the findings, the study concluded that audit committees should have high level of independence, financial expertise and quality meetings in order to execute their roles and mandate effectively. This will enhance the quality of financial reporting. The primary objective of financial reporting is to provide high-quality financial information concerning economic entities, primarily financial in nature but which is useful for economic decision making.

RECOMMENDATIONS

In policy making, the study recommends that policy makers in national and county governments should legislate on the independence of audit committees in Nigeria. Similarly, policies should be formulated to regulate audit committee's financial competence, ensure financial expertise, meetings and audit fees.

Audit committee members could be perceived as independent of the entity but this independence is usually eroded as they become affiliated with the management, and as a result they rely more and more on the financial rewards from the entity at the expense of committee effectiveness.

This study also recommended that when constituting audit committees in consideration should be put on size. Size of audit committees should be evaluated based on gender, age, geographical orientation and tenure.

The study also recommended that audit committees should consist of members with knowledge in accounting and finance which provides a good basis for audit committee members to examine and analyze financial information.

The study further recommended that audit committees should have frequent meetings since meetings play a significant role in mitigating various issues including the agency problem ultimately influencing the quality of financial reporting. Attendance of meeting should be emphasized while the agenda of the meetings should be geared towards improving financial reporting.

Finally, recommends that more attributes of the audit committees could be studied to verify their impact on quality of financial reporting.

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APPENDICES

Name of Company :				
Year End:				
		Y	N	NA
	IFRS DISCLOSURE TEMPLATE			
	IAS 1- Presentation of Financial Statement			
1 (1)	Does the entity disclose that the financial statements comply with IFRSs? (IAS 1. 14)			

2 (2)	Do the financial statements include a statement showing all changes in equity? (IAS 1.8)			
3 (3)	Does the entity disclose that the financial statements comply with any approved accounting standards?			
4-5 (4-5)	Is the following information displayed prominently for a proper understanding of the information presented? 1. the presentation currency; and 2. level of precision used in the presentation of figures in the financial statements (for example, thousands or millions of units of the presentation currency)?			
6 (6)	Does the company disclose in the summary of accounting policies or other notes, the judgments made by the management in the process of applying accounting principles? (IAS 1.113)?			
7 (7)	Does the company disclose either the number of employees at the end of the period or the average for the period (IAS 1.102)?			
8 (8)	Does the company disclose the amount of dividends recognized as distributions to equity holders during the period and related amount per share?			
9 (9)	Does the company disclose the dividends proposed or declared before financial statements were authorized for issue but not recognized as distributions to equity holders during the period?			
	IAS 2 – Inventories			
10	Has the company disclosed the amount of inventories write-down that is recognized as expenses during the period? (IAS 2.36d,e)			
11	Has the company disclosed the amount of, and circumstances or events leading to, the reversal of any write-down that is recognized as a reduction in the number of inventories recognized as expense in the period? (IAS2.36f, g)			
12	Has the organization disclosed the carrying number of inventories pledged as security for liabilities? (IAS 2.36h)			
	IAS 10: Events after the balance sheet date			
13 (10)	Does the company disclose non-adjusting events and adjusting events, stating its nature and financial effects? (IAS 10.21)			
14 (11)	Does the company disclose the date when the financial statements were authorized for issue? (IAS 10.17			
15 (12)	Did the company disclose the body who gave the authorization? (IAS 10.17)			
16 (13)	Does the enterprise disclose the fact that whether the shareholders or others have the power to amend the financial statements after issuance? (IAS 10.17)			
	IAS 12 – Income Taxes			
17	Did the enterprise provide an explanation of the relationship between tax expense (income) and accounting profit in either of the following forms? 1. numerical reconciliation between tax expense (income) and product of accounting profit, multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed (refer to IAS 12 para 85)? or 2. a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed (refer to IAS 12 para 85).[IAS 12.81c]			

18	Are amounts and other details of deductible temporary differences, unused tax losses, and unused tax credits disclosed? [IAS 12.81e]			
19	Are temporary differences associated with investments in subsidiaries, associates, branches, and joint ventures disclosed?[IAS 12.81f]			
	IAS 14: Segment Reporting			
20 (14)	Does the entity disclose the composition of each reported segment?(IAS 14.81)			
21 (15)	Has the Company disclosed for each reportable segment in the entity's primary segment reporting format, segment revenue, result, assets, liabilities and non-cash expenses? (IAS 14.51,52,56,57,58,61)			
22 (16)	For secondary segments do the entity disclose revenue, assets, capital addition? (IAS 14.69-72)			
23 (17)	Has the Company presented a reconciliation between the information disclosed for reportable segments and the aggregate information in the consolidated or entity financial statements? As a minimum, the segment revenue, segment result, segment assets and segment liabilities. (IAS 14.67)			
24 (18)	For inter-segment transfers, did the entity disclose the basis of pricing; and any changes in the basis of pricing inter-segment transfers? (IAS 14.75).			
	IAS 16 Property, Plant and Equipment			
25-26 (19-20)	Does the entity disclose the existence of PPE whose title is restricted and pledged as security for liabilities? IAS16p74(a) b the amounts of PPE whose title is restricted and pledged as security for liabilities? IAS16p74(a)			
27 (21)	Does the entity disclose the amount of expenditure recognized in the carrying amount of PPE in the course of its construction? IAS16p74(b)			
28 (22)	Does the entity disclose the number of contractual commitments for the acquisition of PPE? IAS16p74(c)			
	IAS 18 Revenue			
29 (23)	Disclose the amount of each significant category of revenue recognized during the period, including revenue arising from the sale of goods, the rendering of services, interest, royalties; and dividends. (IAS 18.35b)			
	IAS 20- Accounting for Government Grants and Disclosure of Government Assistance			
30	Does the company disclose the accounting policy adopted for grants, including method of balance sheet presentation? (IAS 20.39)			
31	Is the nature and extent of grants recognized in the financial statements disclosed? (IAS 20.39)			
32	Is the unfulfilled conditions and contingencies attaching to recognized grants disclosed? (IAS 20.39)			

33	Does the company disclose any form of government assistance such as technical and marketing advice? (IAS 20.39b)			
	IAS 21 The Effects of Changes in Foreign Exchange Rates			
34	Does the enterprise disclose net exchange differences classified in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period. [IAS 21.52]			
35	When the presentation currency is different from the functional currency, did the company disclose that fact together with the functional currency and the reason for using a different presentation currency. [IAS 21.53]			
36	Does the enterprise disclose a change in the functional currency of either the reporting entity or a significant foreign operation and the reason for the change in the functional? currency? [IAS 21.54]			
	IAS 23: Borrowing Costs			
37 (24)	Does the enterprise disclose the accounting policy adopted for borrowing costs? (IAS 23.29)			
38 (25)	Is the amount of borrowing cost capitalized during the period disclosed? (IAS 23.29)			
39 (26)	Does the enterprise disclose the capitalization rate used to determine the amount of borrowing costs eligible for the capitalization? (IAS 23.29)			
	IAS 24: Related Party Disclosures			
40 (27)	Are relationships between parents and subsidiaries disclosed irrespective of whether there have been transactions between those related parties? (IAS 24.12)			
41 (28)	Does the entity disclose key management personnel compensation in total for shortterm employee benefits, post-employment benefits, other long-term benefits,			
	termination benefits and share-based payments? (IAS 24.16)			
42-44 (29-31)	Where there have been transactions between related parties, did the entity disclose: 1. types of transactions between related parties; 2. the amount of transactions; 3. the amount of outstanding balances?			
	IAS 27: Consolidated and Separate Financial Statements			
45 (32)	Does the parent enterprise disclose in the consolidated financial statements the names of significant subsidiaries? (IAS 27.32a)			
46 (33)	Does the parent enterprise disclose in the consolidated financial statements the country of incorporation or residence of significant subsidiaries? (IAS 27.32a)			
47 (34)	Does (IAS 27.32a)			
48 (35)	Does the parent enterprise disclose in the consolidated financial statements the reasons for not consolidating a subsidiary? (IAS 27.32b)			

49-51 (36-38)	When separate financial statements are prepared for a parent that, in accordance with para 10, elects not to prepare consolidated financial statements, those separate financial statements should disclose: 1. The fact that the financial statements are separate? 2. A list of significant investments in subsidiaries, jointly controlled entities and associates? 3. Proportion of ownership interest and if different, proportion of voting power held? (IAS 27.42)			
	IAS 28 – Investment in Associates			
52 (39)	Does the enterprise disclose the listings of significant associates? (IAS 28.27a)			
53 (40)	Does the enterprise disclose the method used in accounting for the associates? (IAS 28.27b)			
54-56 (41-43)	Are the following disclosures made? (IAS 28.37) 1. the fair value of investments in associates (individually) for which there are published price quotations; 2. summarized financial information of associates (individually for each significant associate), including the aggregated amounts of assets, liabilities, revenues and profit or loss; 3. the reporting date of an associate's financial statements, when it is different from that of the investor, and the reason for using a different reporting date?			
	IAS 31- Interests in Joint Venture			
57	Does the venture disclose information about contingent liabilities relating to its interest in a joint venture? [IAS 31.54]			
58	Is information about commitments relating to its interests in joint ventures disclosed? [IAS 31.55]			
59	Is a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities disclosed? (IAS 31.56)			
60	Is the method used by the venture to recognize its interests in jointly controlled entities disclosed? [IAS 31.57]			
	IAS 32- Financial Instruments Presentation			
61 (44)	For each class of financial asset, financial liability, and equity instrument, did the entity disclose the accounting policies and methods adopted, including the criteria for recognition and the basis of measurement applied? [IAS 32.60]			
62 (45)	For each class of financial assets and financial liabilities, did the entity disclose information about exposure to interest rate risk, including contractual repricing or maturity dates and effective interest rates, when applicable? [IAS 32.67]			
63 (46)	For each class of financial assets and other credit exposures, did the entity disclose information about exposure to credit risk, including: the amount that best represents its maximum credit risk exposure at the balance sheet date and significant concentrations of credit risk? [IAS 32.76]			

64 (47)	Does the entity disclose the carrying amount of financial assets pledged as collateral and any material terms and conditions relating to assets pledged as collateral? (IAS 32.94)			
	IAS 36 – Impairment of Assets			
65 (48)	Does the entity disclose the policies adopted for impairment losses and impairment losses (reversed) in the income statement for classes of assets? (IAS 36.126)			
66 (49)	Does the entity disclose for primary segments impairment losses and reversals? (IAS 36.126)			
67 (50)	If an individual impairment loss (reversal) recognized is material, did the entity disclose the main events and circumstances resulting in the impairment loss? (IAS 36. 130)			
68 (51)	If an individual impairment loss (reversal) recognized is material, did the entity disclose the amount? (IAS 36. 130)			
	IAS 37 : Provisions, Contingent Liabilities, and Contingent Assets for financial year end before December 2006)			
69 (52)	Does the company disclose the accounting policy for provisions, contingent liability and contingent assets?			
70 (53)	For each class of provision, did the entity disclose, the carrying amount at the beginning of the period, provisions acquired through business combinations, additional provisions, amounts used, amounts reversed unused, increase during the period and the carrying amount at the end of the period? [IAS 37.84]			
71 (54)	For each class of provision, did the company provide a brief description of the nature of the obligation and of the expected timing of any resulting outflows of economic benefit, and amount of any expected reimbursement? [IAS 37.85]			
72 (55)	Does the entity disclose for each class of contingent liability, a brief description of the nature of the contingent liability, its financial effect, and possibility of any? reimbursement? (IAS 37.86,91)			
73 (56)	Does the enterprise disclose for contingent assets, a brief description of the nature of the contingent asset and where practicable, an estimate of their financial effect? (IAS 37.89,91).			
	IAS 38 – Intangible Assets			
74-78 (57-61)	Does the entity disclose the following for each class of intangible assets? i.Useful life or amortization rate? ii.Amortization method? iii.Gross carrying amount? 1. Accumulated amortization and impairment loss? 2. Reconciliation of the carrying amount at the beginning and the end of the period showing additions, assets held for sale, retirements, revaluations, impairments, amortization and foreign exchange differences? (IAS 38.112, 38.122 and IAS 38.124)			
79 (62)	Does the company disclose information about intangible assets where title is restricted?			

80 (63)	Does the company disclose intangible assets carried at revalued amounts?			
	IAS 40- Investment Property			
81 (64)	Is there a disclosure on whether the fair value or the cost model is used? (IAS 40.75a)			
82 (65)	Are the methods and significant assumptions applied in determining the fair value of investment property disclosed? (IAS 40.75d)			
83 (66)	For Cost model, is the depreciation method, useful lives and carrying amount disclosed? (IAS 40.79)			
84 (67)	The extent to which the fair value of investment property is based on a valuation by a qualified independent valuer; if there has been no such valuation, has that fact must be disclosed? (IAS 40.75)			
85 (68)	Are the amounts disclosed in profit or loss for direct operating expenses that did or did not generate rental income during the period? (IAS 40.75f)			
	IFRS 2- Share-based Payment			
86	Does the entity disclose the nature and extent of share-based payment arrangements that existed during the period? (IFRS 2)			
87	Does the company disclose how the fair value was determined? (IFRS 2)			
88	Does the company disclose the effect of share-based payment transactions on the financial position (IFRS 2)			
	IFRS 3- Business Combinations			
89 (69)	For each business combination did the acquirer disclose names and descriptions of the combining entities or businesses? [IFRS 3.67]			
90 (70)	Does the acquirer disclose acquisition date? (IFRS 3.67)			
91 (71)	Is the percentage of voting equity instruments acquired disclosed? (IFRS 3.67)			
92 (72)	Is the cost of the combination (with separate disclosure of the number and fair values of equity instruments issued and how fair values were determined) disclosed? (IFRS 3.67)			
93 (73)	Are details about the factors that contributed to recognition of goodwill disclosed? (IFRS 3.67)			

Ferdinand, Siregar, & Rahadian (2013) and Umoren (2008). Table 8: Disclosure Checklist