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Monitoring Characteristics and Financial Reporting Quality of Nigerian Listed Consumer Goods Firms

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ABSTRACT

The study examines the effect of monitoring characteristics on the financial reporting quality of Nigerian listed consumer goods firms for the period of nine years from 2011-2020. The population of the study consists of all the 21 listed consumer goods firms as at 31st December. Multiple regression technique was employed as technique of data analysis. The findings of the study reveals that all the monitoring characteristics variables used in this study significantly affect the financial reporting quality of Nigerian listed consumer goods firms. It is therefore recommended among others that, companies board in Nigerian consumer goods should be composed in such a way that the representation of non-executive directors should be minimal as it was found, encourage earnings management, hence reducing financial reporting quality. In addition, the representation by independent directors should increase from one to two members and that the chairmen of the board should be independent directors.

KEYWORDS: financial reporting quality, monitoring, characteristics, consumer goods and firms

1. INTRODUCTION

The quality of financial reporting has always been an issue of interest among the relevant stakeholders. This is due to the fact that financial reporting has been a principal means of communicating financial information to external users (Johnson 2005). Financial statement as one of the key means through which companies communicate to the outsiders, including but not limited to investors, regulators, potential and prospective shareholders, financial analysts. Therefore, the information contained in the financial statement most not be misleading, but neutral, representable, faithful, reliable and verifiable for it to serve the purpose to which it purports to serve. For financial statement to be understood clearly, the presentation should not be misleading or ambiguous. Users should be able to understand the information presented without undue effort (International Accounting Standard Board, 2008).

Information asymmetries and conflicts of interest between contracting parties are considered important reasons for the commitment to increase transparency and higher quality financial reporting (Healy & Palepu, 2001). The global corporate scandals that result in the collapse of Enron and WorldCom and the accounting scandals that affected Cadbury Nigeria in 2009 reiterated the need for an investigation into the quality of financial reporting and increased the requirement for better governance mechanisms worldwide. Managers exercise opportunistic behaviour either to benefit privately or to influence contracting agreement or the so called big bath. In an effort to mitigate the conflict of interest that exists between the agent (managers) and the principals (shareholders) and to prevent the continues spate of companies failure in the future. However, governments globally strive to introduce or review codes of corporate governance best practices to align the agent interest with that of their principals which is usually wealth maximization. Thus, among the review is the introduction of some monitoring element in the governance code which are expected to monitor or oversee the activities of the agent (managers) on behalf of the principals (shareholders). In addition, effective monitoring mechanism should therefore be capable of converging managers' decisions (both operating and investment) with that of the shareholders (Shehu & Abubakar 2012). Despite the introduction of the codes of best governance practices in Nigeria in 2003, which was reviewed in 2011 to cover all Nigerian companies, both financial and non financial, very minimal efficiency is said to have been achieved considering some fresh cases of governance malpractices which hampers the survival of quite a number of companies, such as Cadbury Nigeria plc, Oceanic Bank Nigeria plc,

Intercontinental Bank plc. It is therefore important to examine the arguments provided for the different estimates and assumptions made in the annual report and account by managers (Jonas & Blanchet, 2000). To this end, research in this area of the monitoring organs (characteristics) is expected to be promising for further evidence on their efficacy of scrutinizing manager's opportunistic tendency for Increase Company's financial reporting quality. One of the important components of this monitoring characteristic is Board composition represented by Non-Executive directors.

Non executive directors are people with no significant contractual relationship with the company or it group and free from any business or relationship which could materially interfere or constrain them to act in an independent manner. The relationship between non-executive directors and management who are responsible for the preparation of company's financial report should always be of monitoring capacity (Dabo & Adeyemi 2010). However, studying non-executive directors would be interesting to see their effect on the financial reporting quality of consumer goods firms in Nigeria which to the best of the study's knowledge very few of local study examined this variable in relation to financial reporting quality in Nigerian listed consumer goods firms.

Independent directors are people with high caliber and vast experience, integrity and credibility; they are the key members of the board and should bring independent judgment as well as necessary scrutiny to the proposal and action of management and executive directors. Independent directors control better the opportunistic behavior exercise by management, therefore enhancing financial reporting quality (Shehu 2013). Independent directors as an internal control mechanism are concerned with the improvement of corporate governance mechanisms, which thus increases firm value and maximizes shareholder wealth in a corporation (Wenge 2014). Independent directors are becoming a target of public interest for their role as effective monitors in policing management discretionary behavior (Wenge 2014).

Audit Committee is considered integral in improving the quality of financial reporting (Shehu 2013). Ramsay (2001) established that companies establish audit committee to improve the quality of their financial reporting. As pointed by Kuang, (2007) Audit committee is a sub-committee of the board that is responsible for and ensuring the accuracy and reliability of the financial statements provided by management. Recognition of the importance of audit committees as a key governance mechanism through which boards of directors exercise their oversight functions has grown over the years. These seriously draw regulators' attention all over the world to formulate laws and/or review policies on improving the monitoring functions of the audit committees, such as the Sarbanes –Oxley Act of 2002 among others, were attempts made to improve the monitoring functions of audit committee (Nelson & Jamil 2011).

Leverage could be a good monitoring tool for the managers opportunistic tendency. It is expected that, debt-owners monitors the activities of the firms to which they extend loans to, thus, forcing the managers to act in such a way that their fund will be safeguarded (Cornett, MCNutt & Tehranian, 2009). Debt holders ensure that a conducive environment is created for a safe return of their investment by imposing a strict contractual terms that will ensure a permanent earnings generation sufficient enough to facilitate loan servicing and principal repayment over the life span of the debt. Thus, leverage help in assessing the reliability of reported earnings by firms, hence improving financial reporting quality. Going by the above, in publicly traded corporations monitoring mechanisms used in this study otherwise known as Non-executive directors, Independent directors, Audit committee and leverage could possibly moderate or enhance the managers' ability in managing earnings opportunistically and by extension, improving the quality of the reported earnings in the financial statement (financial reporting quality).

The major objective of financial statements is to provide information about the reporting entities' financial position that are useful for assessing the stewardship of the entity's management and making of prudent financial decisions. Despite the existence of all these monitors (non-executive directors, independent directors, audit committee and leverage) a lot of corporate failures and financial scandals such as Cadbury Nigeria plc and Oceanic Bank and Intercontinental Bank were perpetrated by the management. This therefore, brought about doubts in the minds of shareholders and investors on the credibility and reliability of financial reporting. It was as a result of the foregoing statements that researchers considered it of paramount importance to investigate the effect of these monitoring characteristics on the financial reporting quality by exploring the extent to which these variables of the study affect the financial reporting quality of listed consumer goods firms in Nigeria. Therefore, the main aim of this study is to examine the effect of monitoring characteristics and financial reporting quality of consumer goods firms listed in Nigeria. The remaining pat of the paper is structured as thus, section two review the evidence of the stud, section thee discusses the methodology while section four present and interpret the statistical result. Finally, section five concludes the paper.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Financial reports of Nigerian companies have been found to be deficient over time (Wallace, 1988 and Adeyemi, 2006),

this is because they lack vital information that will enable enormous users make informed economic decisions. Nigerian companies have been empirically investigated by Wallace (1988), Okike (2000), Adeyemi (2006), Ofoegbu and Okoye (2010).

A number of studies in developed economies have reported a positive role of having higher proportion of Non-executive directors sit on the board and financial reporting quality (Beasley, 1996; Dechow et. al., 1996; Peasnell et al, 2000; Klein; 2002a, Davidson *et al* (2005). As outside members do not play a direct role in the management of the company, their existence may provide an effective monitoring tool to the board and thus produce higher quality financial reports (Peasnell et al, 2000). However, evidence from countries with highly concentrated corporate governance is inconclusive.

Kao & Chen (2004) and Jaggi *et al*. (2007) found significant negative evidence between earnings management and the presence of higher proportion of Non-executive directors in Taiwan and Hong Kong sample which suggest that the inclusion of larger proportion of outside members on the board of directors provides better oversight of management to mitigate earnings management activity. Park and Shin (2004) however, did not find empirical support on the association between earnings management and board independence for their Canadian sample where the corporate governance is highly concentrated and a large block holder controls the public traded firms in Canada. Additionally, study by Abdullah and Mohammed (2004) did not also find any significant evidence between Non-executive of boards and earnings management in the Malaysian firms. This may be a result of non – inclusion of financial firms in their sample.

Furthermore, study by Jaggi *et al*, (2007) provided evidence of insignificant relationship between proportions of non-executive directors and accrual quality in high family-ownership samples of Hong Kong listed firms which suggest that the monitoring effectiveness of independent directors is reduced in family controlled firms. The result may be different if the study include other firms not only family controlled firms because the non-executive directors are selected based on merit rather than family consideration.

In contrast, findings drawn from other Anglo-Saxon markets generally support the proposition that non-executive directors (NED) mitigate earnings management. Peasnell et al,(2000) investigate the management of working capital accruals to reach earnings target thresholds, for a sample of 630 UK firms before and after the 1992 Cadbury's report. Their results are consistent with higher percentages of NEDs mitigating earnings management aimed at avoiding losses, especially in the post-Cadbury period. This suggests that UK regulations enhancing corporate governance positively impacted boards' monitoring functions. Similar results are reported by Peasnell et al, (2005) for UK firms between 1993-1996 and by Jaggi and Leung (2007) for Hong Kong firms during 1998-2000. Moreover, the presence of a majority of NEDs on the board is found to mitigate earnings management activities in Australia (Davidson et al, 2005), and to result in more conservative accounting earnings in the UK (Beekes et al, 2004). However, Park and Shin (2004) find that, the percentage of outside board members is not associated with the practice of threshold-induced earnings management in Canada. Theefo, it is hpothesise that:

Hypothesis 1: Non-executive directors have no significant impact on financial reporting quality of listed consumer goods firms in Nigerian.

The relation between board composition and financial reporting quality has been explored in previous literature. In a study conducted by Shehu *et al.* (2012) in Nigerian manufacturing sector between the periods of 2008-2010 using a sample of 25 firms where they use Ordinary Least Square (OLS) regression technique found that there is a significant relationship between independent directors and financial reporting quality. Also Ferris *et al*., also are of the opinion that a board with a high representation by independent directors will have a strong significant influence on the quality of financial statement. On the contrary studies like wange (2014) failed to establish any significant relationship between the presence of independent non-executive directors on board and performance using Chinese listed companies. The same thing is reported by (Bhagat & Black 2002). The finding is also in alignment with a stream of other empirical works (Daily & Dalton, 1993; Klein, 1998; Anderson *et al*., 2000; Beiner *et al*., 2004; Boone *et al*., 2007; Bhagat & Bolton, 2008).

Shehu (2011) examines corporate governance and quality of financial reporting of Nigerian deposit money banks between the periods 2007-2009 found that governance mechanisms have positively and strongly affected financial reporting quality. The main drawback of this study is that the study concentrated in the Nigerian deposit money Banks, whereas the present study is on the listed food and beverages firms in Nigeria and is extend to 2014 financial year. In addition, the study by Shehu (2011) did not consider the possibility of data heterogeneity which the present study is intended to incorporate.

Dimitropoulos & Asteriou (2010) confirmed this finding for a sample of Greek firms. In contrast, other studies suggested that, the independent directors are not enough elements to control the managers and their presence in the board has no effect on the reporting quality of information. These studies include Petra (2007) for American firms, Bradbury *et al*, (2006) for Singapore and Malaysian firms and Ahmed *et al* (2006) for New Zealand firms.

Prior literature generally posits that, board of directors' independence from senior management provided, among other things, the most effective monitoring and control of

firm activities. Beasley (1996) and Dechow *et al*. (1996) find that the proportion of independent directors on the board (board independence) is inversely related to the likelihood of financial statement fraud. If independent boards provide superior oversight of the financial accounting process, then we expect bondholders to directly benefit through greater transparency and validity in accounting reports.

Since the board of directors receive their authority for internal control and other decisions from stockholders of corporations (Beasley, 1996 and Fama & Jensen, 1983) claimed that the highest internal control and monitoring mechanism is the board of directors. Studies by Davidson, Stewart & Kent (2005) and (Klein, 2002b) have found grounds to support for this argument. Their analyses have shown a significant negative relationship between the board that is comprised of a majority of non-executive directors and accruals. Furthermore, study by Beasley (1996) have also found a significant negative relationship between board independence and financial statement fraud. However, Abbott, Parker & Peters (2004) also did not find any significant relationship between the percentage of outside directors and restatement of financial statements.

One of the most important factors influencing the integrity of the financial accounting process involves the board of directors, whose responsibility is to provide independent oversight of management performance and to hold management accountable to shareholders for its actions (DeFond & Jiambalvo, 1994 and Dichev & Skinner, 2002). Prior research examining the association between the corporate governance mechanisms concerning the board of directors (e.g. independence of board or board size, expertise of directors or board members, and stock ownership of board members) and the extent of earnings manipulation finds inconclusive results. While the empirical results concerning board attributes are mixed due to different research designs and empirical settings, a general belief is that boards are more effective in their monitoring of management when there is a strong base of independent directors on the board (Beasley, 1996; Peasnell et al, 2000; Klein, 2002; Xie et al, 2003).

Hypothesis 2: Independent directors have no significant influence on financial reporting quality of listed consumer goods firms in Nigerian.

Prior studies posit that the construct of audit committee effectiveness over financial reporting is multidimensional and is affected by variety of audit committee characteristics such as committee size (Anderson et al., 2004; DeZoort and Salterio, 2001), committee independence (Klein, 2002b and Bedard *et al.*, 2004) and committee number of meetings (Menon & Williams, 1994). Audit committee members' financial expertise is another important dimension of audit committee effectiveness that has gained the attention of regulators and academics (Treadway Commission, 1987; GAO, 1991; POB, 1993; DeZoort, 1997, 1998; BRC, 1999 and SOX, 2002). Advocates propose that the presence of financial experts in audit committees do assist the committee in, critically analyzing accounting policies and financial statements, identifying potential problems, and solving them. Carcello & Neal (2000) provided support for this argument by documenting a relation between greater audit committee independence and the quality of financial reporting.

Shehu (2011) examine corporate governance and quality of financial reporting of Nigerian deposit money banks between the periods 2007-2009 found that governance mechanisms have positively and strongly affected financial reporting quality. The study included audit committee governance score as one of the proxies of governance mechanisms. The main drawback of this study is that the study concentrated in the Nigerian deposit money Banks, whereas the present study is on the listed food and beverages firms in Nigeria and is extend to 2014 financial year. In addition, the study of Shehu (2011) did not consider the possibility of data heterogeneity which the present study is intended to incorporate.

Abdulkadir *et al.* (2013) in a study of 70 firms listed on Nigerian Stock Exchange in 2003 measure the association between audit committee and financial reporting quality of listed companies in Nigerian, he found that audit committee significantly impact on the quality of Financial reporting of firms but the study suffered some deficiencies as the study is a cross sectional study that has nothing to do with the data heterogeneity but so concerned about the serial correlation which the study did not considered. Thus, this study is to be conducted using panel data which will give room for the test of hetroscedasticity and multicollinierity and at the same time our study will be extend to cover 2014 financial year end.

Nelson & Jamil (2011) examined audit committees and financial reporting quality following the government transformation programme in Malaysia. They took the sample of 20 out 33 firms for the period of 2003 to 2009. They also adopted Dechow & Dichev (2002) model to measure earnings quality. The study revealed a positive relationship between audit committee size and earnings management. Chabel, Geoges and Elias (2014) and Sharma & Kuang (2013) investigated on voluntary audit committee characteristics incentives and earnings management in New Zealand. The study used a sample of 194 firms out of 393 firms listed in New Zealand Stock Exchange Market for the period 2004. They adopted performance adjusted modified Jones model in measuring discretionary accruals. Their findings showed a significant positive relationship between audit committee size and earnings management. This is in consistent with the proposition by Jensen (1993) that streamlined boards can operate more effectively in

maintaining management and can be extended to audit committee size. This indicates that smaller audit committee is more efficient in monitoring the financial reporting process, thereby reducing earnings management.

Hypothesis 3: Audit committee has no significant effect on the financial reporting quality of listed consumer goods firms in Nigerian.

Empirical evidence appears to be inconclusive, while Courtis (1979), Lau (1992), Malone *et al.* (1993), Hossain *et al.*(1994), Hossain *et al.*(1995), Patton and Zelenka (1997) have all found a positive relationship between leverage and financial reporting quality, many researchers did not find any relationship between the variables (Chow and Wong-Boren, 1987; Ahmed and Nicholls, 1994; Wallace *et al.*, 1994; Raffournier, 1995; Wallace & Naser, 1995; Ahmed, 1996; Inchausti, 1997). On the other hand, Zarzeski (1996) found negative relationship between leverage and disclosure, suggesting that highly leveraged firms tend to disclose private information to their creditors which may not be reflected in their annual reports. Collett & Hrasky, (2005) could not document any relationship between intention to raise new debt capital and disclosure. Owusu-Ansah (1998) did not find any significant relationship between leverage and corporate disclosure. Al-Saeed (2006) has failed to find it significant, whereby it was argued that this was probably due to the fact that the creditors may have shared private information with their debtors. This has been supported by findings by Klein (2002b) which shows that, a company's leverage is significantly positively related to the level of abnormal accruals. Moreover, a study by Davidson, Stewart & Kent (2005) has also found a significant positive relationship between leverage and discretionary accruals.

Shehu *et al*. (2013) in their studies of firm characteristics and financial reporting quality of 24 listed manufacturing firms in Nigeria between the period from 2006-2010 documented a positive and statistical significant relationship between leverage and financial reporting quality. However, the study make an analysis up to 2010 financial year were as the present study extend the period to 2014 year end. Most previous studies have indicated that there is no significant relationship between leverage and the level of disclosure (Wallace *et al.* 1994, Ahmed & Nicholls 1994, Wallace & Naser 1995 and Al Saeed 2006). However, Naser & Al-Khatib (2002), found a significant relationship between leverage and disclosure level.

Hypothesis 4: Leverage has no significant impact on the financial reporting quality of Nigerian listed consumer goods firms.

Theoretically, Agency theory becomes a formal concept after the work of Jensen and Meckling (1976) and pecking order theory contends that management prefers internal to external financing and debt to equity if it issues securities (Myers, 1984) underpins the study.

3. METHOD AND DATA

For the purpose of this study correlation research design were used. The reason for the selection of this research design is; correlation research design has the ability of describing the statistical associations between two or more variables and allows for making predictions by testing of expected relationship between variables. The population of the study consist of all 21 listed consumer goods firms in the Nigerian Stock Exchange as at 31st December 2020. Purposive sampling technique was used after employing a filter to eliminate any firm with incomplete data needed for measuring the variables within the period of the study (2011-2020). Therefore, 8 firms were eliminated leaving 13 firms. Another filter was employed again to eliminate any firm that was delisted on the trading floor of Nigerian Stock Exchange (NSE) within the period of the study. Consequently, 3 firms were eliminated leaving 10. However, the remaining ten were utilized as sample of the study. Secondary sources of data collection were utilized for the study. Two steps regression was used in determining the quality of financial reports of the Nigerian listed consumer goods firms by adopting Kothari *et al.* (2005) model. The following is the parsimonious model of the study to empirically test the hypotheses formulated:

$$\mathbf{FRQ}_{it} = \beta_0 + \beta_1\mathbf{NED}_{it} + \beta_2\mathbf{IND}_{it} + \beta_3\mathbf{AC}_{it} + \beta_4\mathbf{LEV}_{it} \beta_5\mathbf{FSIZ}_{it} + \varepsilon_{it}$$

4. RESULT AND DISCUSSION

This section present the results of the model estimations and the inferences drawn from the tests of the hypotheses are also given. Hence, findings are discussed and policy implications are analyzed.

Descriptive Statistics

The following Table 4.1 present the descriptive statistics where minimum, maximum mean, standard deviation, skewness and kurtosis of the data for the variables used in the study are described.

Table 4.1: Descriptive Statistics

Variables	Mean	Std. Dev	Min	Max	Kurtosis	Skewness
FRQ	0.157	0.116	0.007	0.407	2.002	0.426
NON-EX	0.381	0.200	0.054	1.651	2.111	3.354
IND	0.684	0.105	0.429	0.917	2.387	0.108
AC	2.833	0.640	2.000	4.000	2.384	0.158

LEV	0.714	0.415	0.039	0.799	3.127	0.951
FSZ	17.127	1.321	15.086	22.493	7.004	1.410

Source: STATA OUTPUT, 2021

Table 4.1 shows that the measure of financial reporting quality (FRQ) of the consumer goods sector has a mean value of 0.157 with standard deviation of 0.116, and minimum and maximum values of 0.007 and 0.407 respectively. This implies that the average quality of financial report in consumer goods sector is 0.157 to 0.407, and the deviation from both sides of the mean is 0.116. This suggests that, the dispersion of the data from the mean is not too wide because the standard deviation is a little bit high. On the other hand, it reveals a maximum of 0.407 implying a situation where the errors (residual) cover only 40% of the quantitative and qualitative characteristics of financial reporting quality of the consumer goods sector. The peak of the data is indicated by the kurtosis value of 2.002, suggesting that most of the values are higher than mean, hence the data did not meet a normal distribution assumption.

The Table indicates an average proportion of shares held by Non-executive directors' (Non-Ex) of 0.3811825 with standard deviation of 0.0.1997108, the minimum and maximum values is 0.6542914 and 1.650868 respectively. This implies that, on average, the proportion of shares held by Non-Ex in consumer goods sector is 0.3811825 and the data deviate from both sides of the mean by 0.1997108. This suggests a wide dispersion of the data from the mean because the standard deviation is quit lower to the mean value. The peak of the data is indicated by the kurtosis value of 21.11052, suggesting that most of the values are higher than mean, and the data did not meet a normal distribution assumption.

Moreover, Table 4.1 shows average audit committee governance score (AC Gov Score) of 2.833333 with standard deviation of 0.6404002, the minimum and maximum values are 2 and 4 respectively. This implies that an average AC GOV SCORE as measured by the strength of audit committee proxies (audit committee size, audit committee independence, audit committee meetings and audit committee financial literacy) in consumer goods sector is 2.8%. Implying an average function of AC GOV SCORE (combine effect of four proxies of audit committee on FRQ) in consumer goods sector of the Nigerian economy. The deviation from both sides of the mean is 0.6404002. This suggests a wide dispersion of the data from the mean because the mean value is high compared to the standard deviation. Similarly, the results in Table 4.1 indicate that leverage (LEV) has a mean value of 0.7143191 with standard deviation of 0.4148771, and minimum and maximum values of 0.039427 and 1.79855 respectively. This suggests that on average leverage in consumer goods sector is 71%and the deviation from both sides of the mean by 41%. This also suggests a wide dispersion of the data from the mean because the mean value is high compared to standard deviation.

Lastly, Table 4.1 indicates an average firm size (FSZ) of 17.12665 with standard deviation of 1.321194, and minimum and maximum values of 15.08603 and 22.4933 respectively. The deviation from the mean is 1.321194. This suggests a wide dispersion of the data from the mean because the mean value is quit higher than the standard deviation. The peak of the FSZ data is indicated by the kurtosis value of 7.003865, suggesting that most of the values are higher than mean, and the data did not meet a normal distribution assumption.

Correlation Matrix Result

The following table present the correlation matrix table where the relationship of the independent variable and the dependent variable is analyse and also between independent variables and themselves.

Table 4.2: Correlation Matrix

Variables	FRQ	NON-EX	IND	AC	LEV	FSZ
FRQ	1.000					
NON-EX	-0.155	1.000				
IND	0.531	-0.072	1.000			
AC	0.866	-0.063	0.379	1.000		
LEV	-0.395	0.031	-0.120	-0.302	1.000	
FSZ	0.052	-0.184	-0.010	0.025	0.140	1.000

Source: STATA OUTPUT, 2021

The results in Table 4.1 show the degree of association between financial reporting quality (FRQ) and all pairs of independent variables individually between them salves and cumulatively with the dependent variable (FRQ) of the

study in the consumer goods sector. The table presents a negative relation between financial reporting quality (FRQ) and Non-Executive directors' (Non-Ex) from the correlation coefficient of -0.1551. This relationship implies that as the proportion of Non-Ex increases the FRQ of the sample firms will decrease. Table 4.4.1 shows that there is positive association between FRQ of the consumer goods firms and Independent directors' (IND) of the sample firms, from the correlation coefficient of 0.5309. This relationship implies that as the proportion of independent directors' of the sample firms increases the FRQ will also improve.

Moreover, the table indicates a positive correlation between FRQ and AC GOV SCORE from the correlation coefficient of 0.8663. This relationship implies that as the audit committee governance score (*AC-GSCORE*) increases the FRQ will also improve in the same direction. The table also indicates a negative relationship between FRQ and leverage (LEV) from the correlation coefficient of -0.3952. Table 4.3 also shows a positive relationship between FRQ and firm size (FSZ) which is a control variable in this study from the correlation coefficient of 0.0529.

The analysis of the relationships between dependent variable FRQ and all the independent variables and between independent variables and themselves indicated that is mostly negative and insignificant. However, to conclude the relation and the impact of the dependent variable (FRQ) and all the pairs of independent variables (non-executive director', independent directors', AC GOV SCORE and leverage) of Nigerian consumer goods sector in the regression model of the study is analyzed in the following section.

Presentation, Analysis and Discussion of Regression Results

This section presents the regression result of the dependent variable (FRQ) and all the independent variables of the study (Non-executive directors, independent directors, audit committee, leverage and firm size). It follows with the analysis of the association between dependent variable and each independent variable individually and cumulatively. Hence, the summary of the regression result obtained from the model of the study $(FRQ = \beta_0+\beta_1 Non\text{-}Ex_{it}+\beta_2 IND_{it}+\beta_3 AC_{it}+\beta_4 LEV_{it}+\beta_5 FSZ_{it}+e_{it})$ is presented in the table below:

Table 4.3: Summary of Resgression Results

Variables	Coefficients	z-values	p-values
NON-EX	0.387	7.590	0.000
IND	-0.678	-2.840	0.004
AC	-0.612	-2.540	0.011
LEV	-0.479	-5.960	0.000
FSZ	0.853	-6.060	0.000
Intercept	0.178	1.990	0.047
R-Square			**0.570**
F-Statistics			**116.29**
F-sig			**0.000**
Mean VIF			**1.14**
Hettest			**13.48 (0.0002)**
LM Test			**2.90 (0.2931)**

Source: STATA OUTPUT, 2021

The cumulative R^2 (0.58) which is the multiple coefficient of determination gives the proportion or percentage of the total variation in the dependent variable as explained by the independent variable jointly. Hence, it signifies 58% of total variation in financial reporting quality of Nigerian consumer goods firms is caused by the collective effort of non-executive directors, independent directors, audit committee and leverage. This further indicates that the model is fit, variables properly selected, combined and used in the study. This is statistically supported by the F- statistics coefficient of 116.29 with a p-value of 0.0000 which is statistically significant at 1% level of significance. For colinearity issue the mean VIF of 1.14 suggest the absebce of multicollineaity. In addition, the result of the heteroscedasticity test reveals that there is a presence of heteroscedasticity because the probability of the chi square is statistically significant at 1% indicating that the data are not homoscedastic. This suggests that the original OLS regression will not suit the study. However, as a result Generalize Least Square regression (GLS) will best suit the study; consequently, hausman specification test for fixed and random effect is conducted to select the preferred

model. It tests whether the unique errors (stochastic disturbance) are correlated with the independent variables. The result of the test reveals that they are highly correlated because the chi-square probability is not significant at any level of significant (0.9963) which guided this work to interpret the result of the random effect model. Finally, the result of the LM test with a chibar2 significant of 0.2931 suggests that OLS regression model best suits the study. In addition, that of robust OLS is hereby presented.

From the table above (4.2), it is observed that the z-value for non-executive directors' (Non-Ex) is 7.59 and a beta coefficient of 0.3868758 with a p-value value of 0.000. This signifies that Non-Executive directors negatively, strongly and statistically influencing financial reporting quality of listed consumer goods firms in Nigeria. This implies that for every 1% increase in the number of shares held by non-executive directors' the financial reporting quality will reduce by 38%. In other words, this result implies that for every single increase in the number of shares held by the Non-Ex will encourage earnings management by managers of Nigerian listed consumer goods firms (the more the shares held by Non-Ex the more the earnings management and hence, the less the financial reporting quality). This is not surprising considering the argument put forward by the advocate of the entrenchment hypothesis that high levels of insider ownership can become ineffective in aligning insiders to take value maximizing decisions, which may affect the financial reporting quality negatively.

In addition, the findings also support the real happening in the world of window dressing habit normally perpetrated by the managers of corporations as supported by the non-executive directors' because the benefit gain from the opportunistic accounting of managers will also be shared altogether. This result contradicts the findings Davidson *et al* (2005); Bushman *et al,*. (2004); Vafeas (2005); Karamanou & Vafeas (2005); Firth *et al*, (2007); Peasnell et al,(2005); Jaggi and Leung (2005); Davidson et al, (2005); but support the findings of Kao & Chen (2004); Jaggi *et al*. (2007); Park & Shin (2004); Dimitropoulos & Asteriou (2010); Petra (2007); Bradbury et al, (2006); Ahmed et al (2006); Davidson, Stewart & Kent (2005. Thus, hypothesis 1 is ejected.

The regression result reveal that, the independent directors as depicted in table 4.6 have a z-value of -2.84 and a coefficient beta value of -1.67754 with a p-value of 0.004. This signifies that independent directors have a positively, significantly and statistically impact on the financial reporting quality of consumer goods firms in Nigeria. This indicates that for every 1% increase in the proportion of independent directors' on board of Nigerian consumer goods firms, the financial reporting quality will also increase significantly. Another explanation is that the more the representation by the independent directors on board of Nigerian listed consumer goods firms the less the chances by managers to manage earnings opportunistically and hence, the greater the financial reporting quality. This result is not surprising as it did not contradict researchers' expectation that considering the vast experience, credibility, talent and integrity possess by independent directors' they may not wish to be compromise as it may affect their attributes negatively.

In addition, independent directors are people of high caliber, vast experience, integrity and credibility among others; they are also expected to be free from managerial influence which makes them capable of monitoring the opportunistic accounting practiced by managers. This monitoring also goes in line with improve quality of accounting numbers conveyed in the financial statement. Another important reason for this findings may be as a result of independent directors' do not in any way participate in the management of a corporation, this may serve an efficient and effective mechanisms of monitoring the activities of managers and hence, provide a high quality financial report. The above findings is however, not consistent with that of Beiner *et al*., (2004); Boone *et al*., (2007); Kao and Chen (2004); Park *et al*., (2004);; Vafeas (2005) and Bhagat & Bolton, (2008); and also in line with Shehu (2013; 2011); Honeine & Swan, (2010); Firth *et al.* (2007), Ahmad and Mansor (2009), Denis *et al* (2009), Cristina (2010), Dimitropoulos & Asteriou (2010) and Nedia (2013), who established a significant positive association. For that, hypothesis 2 is hereby rejected.

In addition, the result of audit committee governance score (audit committee size, independence and meeting frequency) determines the strength or weakness of the audit committee, reveals a z-value of -2.54 and a beta value of -583.6123 with a p-value of 0.011. This signifies that for every 5% improves in the *AU GOV SCORE* will lead to a significant improvement in the quality of financial reporting in Nigerian listed consumer goods firms. This result is consistent with the study's prior expectations that audit committee serve as a watchdog between managers, external auditors and financial statement users (share holders, investors, analyst etc), their presence and scrutiny effort will surely checkmate the activities of managers. Hence, larger, independent, frequent meetings and financially experienced members of audit committee will likely devote more time and resources to inspect financial reporting, internal control system and the work of external auditors and ease deliberations among audit members (Anderson *et al.*, 2004) In addition, the result may be as a result of the argument forwarded by DeZoort & Salterio (2001) that firms with larger audit committees are less likely to make suspicious auditor switches. However, for the committee's independence, it tallies with the findings of Klein, (2002); Bédard et al., (2004) and Anderson *et al*. (2004) depicting a positive relationship between audit committee independence and financial reporting integrity. In conclusion, Menon &

Williams (1994) squabble that audit committees that do not meet or meet only once are unlikely to be effective monitors while audit committees that meet several times exert more serious efforts in monitoring management, therefore, shielding earnings manipulation, thus improving financial reporting quality. The result support the findings of Shehu (2011; 2013); Beasley *et al*., 2000); McMullen & Raghunandan, (1996); Archambeault & DeZoort, (2001); Abbott *et al*. (2004); Bedard *et al*. (2004) which are all of the opinion that larger audit committees are more likely to be able to dedicate ample time and effort to ensure the information disclosed in the financial statements is truthful and judicious to enhance the quality of financial reporting. Base on the above finding the third null hypothesis of the study is rejected.

The regression result reveals that leverage has a z-value of -5.96 with regression coefficient of -3.479031 with a p-value of 0.000, which is statistically significant, at all level of significance (1%, 5% & 10%). This signifies that, for every 1% increase in the level of leverage in Nigerian consumer goods firms, it will have a statistical and significant negative influence on earnings management. Consequently this negative impact on earnings management signifies a positive effect on the financial reporting quality of the sample firms. This implies that, managers of more levered firms have a less motivation to practice opportunistic accounting which will improve the quality of accounting numbers reported in the financial statement of the sample firms. However, the result is not surprising because leverage represent firms capital structure, therefore, high leverage indicates that a firm uses debt financing more, so that the fund can be used to finance long term firm growth in order to earn profit. Another important argument forwarded by Kim et al., (1992) was that, leverage as a proxy for firm financial risk therefore firm's share price is conditioned by its level of leverage, which means investors and financial analysts use firms level of leverage to asses it long term growth and stewardship.

In addition, leverage is a measure for testing the information content of the balance sheet, which is widely used by investors, creditors and analyst to evaluate a firm. Therefore, more levered firms are less likely to endure accounting manipulations in order to control firm's spotlight to accounting covenant and clamor in the earning flow. The findings of this study support the findings of Naser and Al-Khatib (2000), Naser *et al.* (2002), Davidson *et al* (2005). On the other hand the findings is also contrary to that of, Nadia (2013). Considering the above findings it serve as an evidence to eject the last null hypothesis.

CONCLUSIONS AND RECOMMENDATIONS

The study has provided both empirical and statistical evidence on the utility of four explanatory variables of non-executive directors, independent directors, audit committee and leverage in predicting the explained variable (financial reporting quality) of the sample firms. In line with the findings and conclusion of the study, the following recommendations are proffered:Companies board in Nigerian consumer goods should be composed in such a way that the representation of non-executive directors should be minimal as it was found it encourage earnings management, hence reducing the quality of information conveyed to users of financial statement. There is the need for regulators like Security and Exchange Commission (SEC) to increase the minimum number of independent director's members on the board, instead of one member; they might also make it mandatory that the chairman of the board should be independent director. In addition, it should also give guidelines on the basis of selecting independent board members in order not to compromise integrity, objectivity, upright personal experience, compatibility and tangible achievement in the period of service. Hence, there overriding need should be to improve the quality of the information content conveyed to users of financial statement. Shareholders of Nigerian listed consumer goods firms should ensure the strict compliance of the Companies and Allied Matters Act (CAMA) provision of the minimum numbers of audit committee members and the membership should be composed of a high proportion of independent directors. The representation from the financially experienced members should not to be compromised and the number should also be increased to at least two members with financial experience instead of one initially proposed. In addition, SEC and other shareholders should also make sure that members of the audit committee meet at least not less than the minimum meeting requirement by the SEC. Finally, management should take cautious decisions in respect of leverage. The financing decision should be more of leverage than equity but avoiding excess leverage that will lead to financial distress. Thus, the more moderate leverage, the higher the financial reporting quality.

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APPENDIX

```
. su frq nonex ind ac lev fsz
```

Variable	Obs	Mean	Std. Dev.	Min	Max
frq	90	.1567149	.1157078	.0006594	.406723
nonex	90	.3811825	.1997108	.0542914	1.650868
ind	90	.684401	.1048741	.428571	.916667
ac	90	2.833333	.6404002	2	4
lev	90	.7143191	.4148771	.039427	1.79855
fsz	90	17.12665	1.321194	15.08603	22.4933

```
. correlate frq nonex ind ac lev fsz
(obs=90)
```

	frq	nonex	ind	ac	lev	fsz
frq	1.0000					
nonex	-0.1551	1.0000				
ind	0.5309	-0.0717	1.0000			
ac	0.8663	-0.0631	0.3788	1.0000		
lev	-0.3952	0.3133	-0.1196	-0.3017	1.0000	
fsz	0.0529	-0.1844	-0.0103	0.0250	0.1404	1.0000

. vif

Variable	VIF	1/VIF
ind	1.19	0.837082
lev	1.16	0.863106
nonex	1.15	0.871811
ac	1.12	0.892812
fsz	1.09	0.919012
Mean VIF	1.14	

. reg frq nonex ind ac lev fsz

Source	SS	df	MS
Model	9.3155e+10	5	1.8631e+10
Residual	6.9660e+10	84	829289850
Total	1.6282e+11	89	1.8294e+09

Number of obs	90
F(5, 84)	22.47
Prob > F	0.0000
R-squared	0.5722
Adj R-squared	0.5467
Root MSE	28797

frq	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
nonex	.3868758	.0576999	6.70	0.000	.5016183	.2721333
ind	- 1.67754	.3574683	-4.69	0.000	-.9666748	-2.388405
ac	-583.6123	171.4344	-3.40	0.001	-242.6961	-924.5284
lev	3.479031	1.224932	-2.84	0.006	-1.043118	5.914943
fsz	-331.8534	143.5829	-2.31	0.023	-617.3837	-46.32316
_cons	6632.178	5763.999	1.15	0.253	-4830.165	18094.52

. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of frq

chi2(1) = 13.48
Prob > chi2 = 0.0002

. xtset year id
panel variable: year (strongly balanced)
time variable: id, 1 to 10
delta: 1 unit

```
. xtreg frq nonex ind ac lev fsz,fe

Fixed-effects (within) regression               Number of obs      =        90
Group variable: year                            Number of groups   =         9

R-sq:  within  = 0.5762                         Obs per group: min =        10
       between = 0.0407                                        avg =      10.0
       overall = 0.5716                                        max =        10

                                                F(5,76)            =     20.67
corr(u_i, xb)  = -0.0273                        Prob > F           =    0.0000

------------------------------------------------------------------------------
         frq |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
       nonex |   .3879228   .0610105     6.36   0.000     .5094356    .2664099
         ind |  -1.583964   .3888473    -4.07   0.000    -.8095071   -2.35842
          ac |  -614.5108   182.6166    -3.37   0.001    -250.7983   -978.2234
         lev |  -3.662202   1.322506    -2.77   0.007    -1.028204   -6.296201
         fsz |  -320.8512   150.6422    -2.13   0.036    -620.8811   -20.82118
       _cons |   6695.951   6030.931     1.11   0.270    -5315.688    18707.59
-------------+----------------------------------------------------------------
     sigma_u |  3879.7299
     sigma_e |  30033.881
         rho |  .01641318   (fraction of variance due to u_i)
------------------------------------------------------------------------------
F test that all u_i=0:     F(8, 76) =     0.15                 Prob > F = 0.9960
. xtreg frq nonex ind ac lev fsz,re

Random-effects GLS regression                   Number of obs      =        90
Group variable: year                            Number of groups   =         9

R-sq:  within  = 0.5757                         Obs per group: min =        10
       between = 0.1045                                        avg =      10.0
       overall = 0.5722                                        max =        10

                                                Wald chi2(5)       =    112.33
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000

------------------------------------------------------------------------------
         frq |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
       nonex |   .3868758   .0576999     6.70   0.000     .4999654    .2737861
         ind |  -1.67754    .3574683    -4.69   0.000    -.9769148   -2.378165
          ac |  -583.6123   171.4344    -3.40   0.001    -247.607    -919.6176
         lev |  -3.479031   1.224932    -2.84   0.005    -1.078207   -5.879854
         fsz |  -331.8514   143.5829    -2.31   0.021    -613.2707   -50.43619
       _cons |   6632.178   5761.999     1.15   0.250    -4665.052    17929.41
-------------+----------------------------------------------------------------
     sigma_u |         0
     sigma_e |  30033.881
         rho |         0   (fraction of variance due to u_i)
------------------------------------------------------------------------------

. hausman fe re

                 ---- Coefficients ----
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
             |       fe          re          Difference          S.E.
-------------+----------------------------------------------------------------
       nonex |   .0013097   -.0036619        .0071716        .0223245
         ind |   .1087042    .0899791        .0187251        .0415623
          ac |   .0366077    .0390974       -.0024897        .0068616
         lev |  -.043993    -.0436127       -.0003803        .0082426
         fsz |   .005094     .0052054       -.0001113        .000867
------------------------------------------------------------------------------
                b = consistent under Ho and Ha; obtained from xtreg
     B = inconsistent under Ha, efficient under Ho; obtained from xtreg

  Test:  Ho:  difference in coefficients not systematic

                chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                        =        0.36
              Prob>chi2 =      0.9963
```

```
. xttest0

Breusch and Pagan Lagrangian multiplier test for random effects

        frq[year,t] = Xb + u[year] + e[year,t]

        Estimated results:
                         |       Var     sd = sqrt(Var)
                ---------+-----------------------------
                     frq |    .012997        .1140042
                       e |   .0121846         .110384
                       u |   .0023928        .0489164

        Test:   Var(u) = 0
                                 chibar2(01) =     0.30
                              Prob > chibar2 =   0.2931
```

```
. xttest3

Modified Wald test for groupwise heteroskedasticity
in fixed effect regression model

H0: sigma(i)^2 = sigma^2 for all i

chi2 (10)  =      2.22
Prob>chi2  =    0.9944
```

```
. xtreg frq nonex ind ac lev fsz,robust

Random-effects GLS regression                   Number of obs      =        90
Group variable: year                            Number of groups   =         9

R-sq:  within  = 0.3757                         Obs per group: min =        10
       between = 0.1045                                        avg =      10.0
       overall = 0.3722                                        max =        10

                                                Wald chi2(5)       =    116.29
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000

                                              (Std. Err. adjusted for 9 clusters in year)
------------------------------------------------------------------------------
             |               Robust
         frq |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
       nonex |   .3868758   .0509935     7.59   0.000     .4868252    .2869264
         ind |  -1.67754    .5897593    -2.84   0.004    -.5216327   -2.833447
          ac |  -583.6123   229.9961    -2.54   0.011    -132.8282   -1034.396
         lev |  -3.479031   .5836399    -5.96   0.000    -2.335117   -4.622944
         fsz |  -331.8514   54.80631    -6.06   0.000    -439.2722   -224.4347
       _cons |   6632.178   3333.555     1.99   0.047     98.53128    13165.83
-------------+----------------------------------------------------------------
     sigma_u |          0
     sigma_e |  30033.981
         rho |          0   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```