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CORPORATE GOVERNANCE AND QUALITY OF FINANCIAL REPORTING; NIGERIA PERSPECTIVE

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ABSTRACT
The main aim of this study was to examine the impact of corporate governance on the quality of financial reporting in Nigeria. To achieve the objective of this study,secondary data were sourced from the annual reports and financial statements of thirteen manufacturing companies quoted on the floor of stock exchange in Nigeriaas at September, 2015 spanning over 2006 – 2015 of ten years financial reports where Ex-post Facto research design and Stakeholder Theory were adopted. The sampled Manufacturing companies are; Cadbury Nigeria Plc, Dangote Flour Mills Plc, DN Tyre and Rubber Plc, Guinness Nigeria Plc, Honeywell Flour Mills Plc, 7 – Up Bottling Company Plc, Nigerian Brewery Plc, Nestle Nigeria Plc, Pz Cussons Nigeria Plc, Unilever Nigeria Plc, Flour Mills Nigeria Plc, Multi – Trex Integrated Food Plc, Nascon Allied Industries Plc. Corporate Governance was proxies by Board Size, Audit Committee, CEO duality. The findings revealed that Board size and CEO Duality has negative effect on the quality of financial reportingwhile the Audit committee has positive significant effect on financial reporting in Nigeria. In recommendation; the Boards need to be financial expertise and effort should be made to include a financial expert as the CEO or Chairman this could contribute to the quality of financial reporting in Nigeria.

Key Words: Corporate Governance, Board Size, Audit Committee, Financial Reporting.

INTRODUCTION
It has become necessary to question the governance policy practiced in companies locally and internationally because of the propagation of crisis in the recent years. Regulators have proposed new laws of good conduct and financial security offering a series of recommendations perceived as best practices of governance (Fathi, 2013). These reports are considered to be benchmark in corporate governance. The collapse of key companies like Enron, Arthur Aderson, Health Smith and others has ignited the enactment of the code of corporate governance. In this respect, the United State Congress enacted the Sarbaness-Oxley Act of 2002 to guide the practice of corporate governance.
In Nigeria, This is worrisome when one realizes that the banking sector and the manufacturing sector have been the worst hit especially since the 1990s. The quality of the corporate governance is a necessary condition to assure and maintain the confidence of stakeholders. Hence, Code of conduct attaches importance to the financial information quality of a firm.According to International Accounting Standard Board (IASB, 2008) financial reporting

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quality refers to the extent to which the financial statement provides true and fair information about the underlying financial position and economic performance.

1.1 Statement of the Problem

Unethical and unprofessional practices, poor management quality, etc have been the major challenges in the manufacturing sector. Obviously, Strong companies lacking transparent control, responsible corporate boards and shareholder right can collapse quite quickly as investor's confidence collapse", (Mary O'Sullivan, 2000).

1.2 Aim and Objectives of the Study

The overall aim of this study is to examine the impact of corporate governance on the quality of financial reporting in Nigeria. Therefore, the specific objectives of the study are stated as follows;

i. To examine the impact of Board Size on the quality of financial reporting in Nigeria.
ii. To examine the impact of Audit committee on the quality of financial reporting in Nigeria.
iii. To examine the impact of CEO Duality on the quality of financial reporting in Nigeria

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Corporate Governance

Corporate governance is a process where the boards of directors are saddled with the responsibilities of running the affairs of an entity.(Cadbury, 2002).

Dumitru, (2012) have exhaustively defined corporate governance as a mechanism for managing, directing and supervising the activities of the company with the aim of creating value for shareholders. However, for the purpose of this study, we would consider a definition that embraces a wider view (i.e. including the shareholders' perspective) of corporate governance.

2.1.2 Board of Directors

The board of directors (B.O.D) is the primary direct stakeholder influencing corporate governance. The board is tasked with making important decisions, such as corporate officer appointments, executive compensation and dividend policy.

2.1.3 Audit committee

Audit committees are made up six members with equal number of shareholders and Directors playing a critical role in providing oversight and serving as a check and balance on a company's financial reporting system. The Sarbanes-Oxley Act in the US (2002) requires that all members of the audit committee be independent.

2.1.4 Financial Reporting

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Financial reporting is a record that communicates information about the financial performance, financial position and changes in financial position of an entity to the end users for economic decision.

2.1.5 Quality of Financial Reporting

Khaled, (2012) stated that financial statements should be able to show pertinent, dependable, comparable and comprehensible information. The IASB (2003) reports that those who use financial information ought to be easy to understand the facts provided effortlessly. The achievement of this lies in full disclosure of the annual report and a greater state of openness.

2.2.0 Conceptual Model

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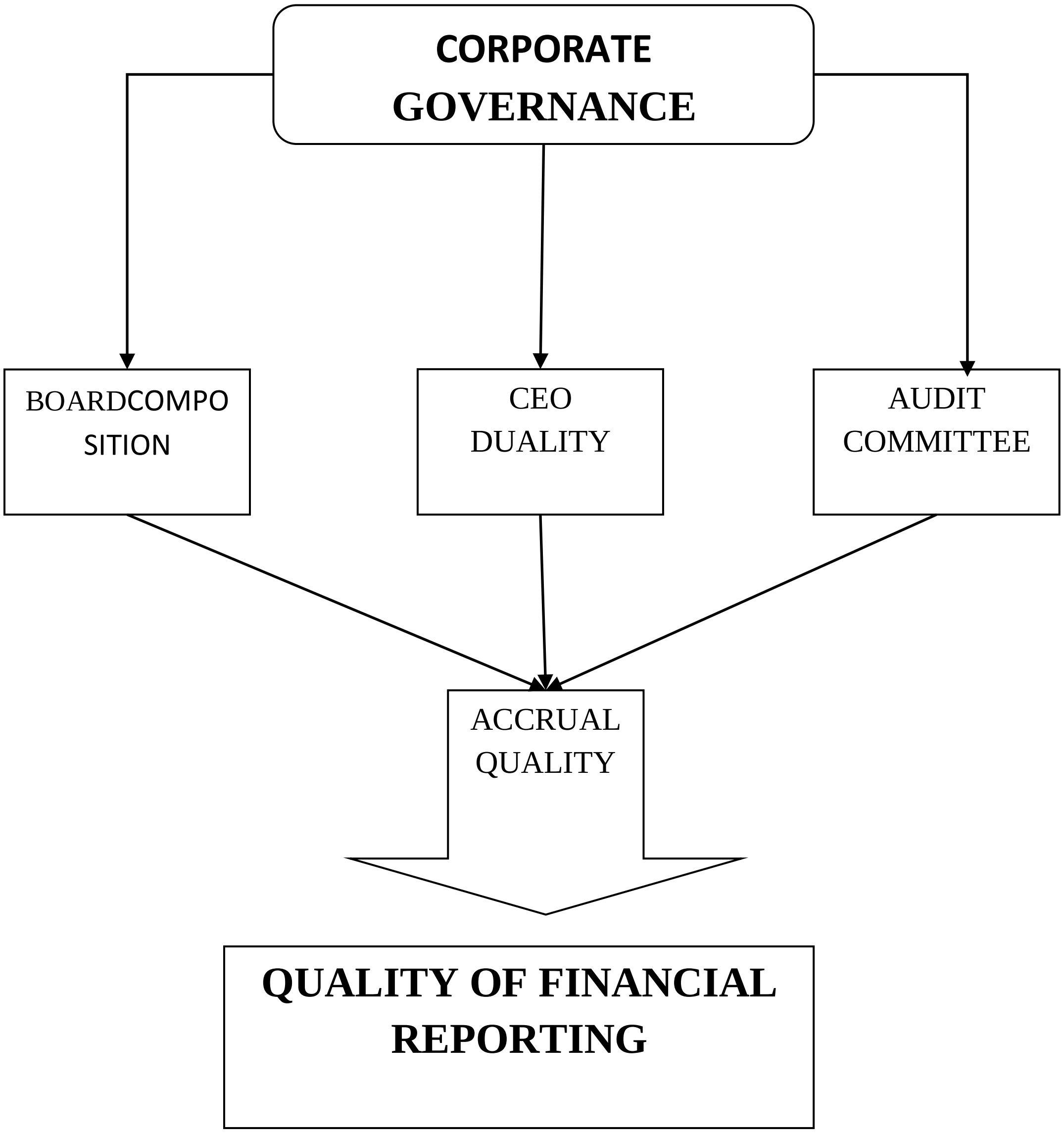

Figure 1: Source: Researchers' Corporate Governance Tree Model (2018)

2.2.1 Board Composition

Large boards could provide the diversity that would help companies to secure critical resources and reduce environmental uncertainties (Zahra, 1992), coordination, communication and decision-making problems increasingly impede company performance when the number of directors increases.

2.2.2 CEO Duality

The avoidance of the need to transfer information obtained under duality is said to improve the ability of the executive to perform the function of the office entrusted upon him/her (Zhe, Xialing and Yuzhu, 2011). One school of thought holds that, in accordance with agency theory which is based on the premise that the owners of a shareholding company are the principals and

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the managers are the agents, the owners would do better if they were in direct control of the company.

2.2.3 Audit Committee

Audit committee refers to a working group chosen by a firm as a linkage between the managers and the outside assessors. The committee as a subcommittee of the governing body specializes in the provision of accurate and reliable financial statements. In 1967, "American Institute of Certified Public Accountant (AICPA)"proposed the institution of audit committee in companies. Nigeria witnessed the institution of this committee with the promulgation of "Companies and Allied Matters Act (1990) as amended in (2004)".

2.3. Theoretical Review

2.3.1 Stakeholder Theory

In describing Stakeholder Theory, Nuraddeen and Hasnah(2015) states that the firm is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities.

2.3.2 Stewardship Theory

In the stewardship, managers are good stewards of the corporations and diligently work to attain high levels of corporate profit and shareholders returns (Donaldson and Davis 1994, hereafter referred to as (D & D). Their arguments support the investment of business schools in the development of management skills and knowledge.

2.3.3 Agency Theory

The agency theory posits that the control function of an organization is primarily exercised by the board of directors. With regard to the board as a governance mechanism, the issues that appear most prominent in the literature are Board composition, board size, audit committee composition, managerial shareholding and institutional shareholding and financial performance variables.

2.4.0 Theoretical Framework

This study is anchored on the Stakeholder Theory.

2.5.0 Empirical Review

Nuraini, (2015) in his study on the role of corporate governance on financial reporting quality investigated the role of corporate governance mechanisms in improving financial reporting quality. The study was inched on agency theory and data were primarily sourced. The study found that internalization of corporate governance will improve transparency, accountability and timeliness (measures of financial reporting quality) of the sampled companies.

Zhe*et al*,(2011) investigated that customer satisfaction is one of the most aspect of firm performance emphasizing on the relationship between Board composition and customer satisfaction using secondary data of 163 public firms while their findings revealed that CEO Duality is associated with low customer satisfaction. However, they could not find aa significant association of percentage of outside Directors to customer satisfaction.

Akigunola, Adekunle and Adedipe(2013), evaluated the impacts of corporate governance on Banks' performance in Nigeria. Descriptive and quantitative survey was employed using both

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primary and secondary data. The study found that banks total credit was positively related but not significantly determinant factors of bank performance. Bank deposits were positively related to bank performance but insignificant in Nigeria economy.

NesrineKlai, (2011) examined the effect of the governance mechanisms on the financial reporting quality for a sample of Tunisian firms. The research focused on the characteristics of the board of directors and the ownership structure of the firms listed on the Tunis Stock Exchange during the period 1997–2007.

Kajola, (2008) examined the relationship between four corporate governance mechanisms and two firm performance measurements. The study was inched on agency theory. The methodology adopted was multiple regressions using panel data. The researcher found that there is a positive significant relationship between return on capital employed and board size as well as chief executive officer status.

3. METHODOLOGY

Ex-post facto type of research design was adopted in this study due to the existing data on the variables in the model. The population of the study is made up of entirely thirteen three (13) consumer goods manufacturing companies whose shares are quoted and traded in the Nigerian Stock Exchange (NSE) between the years 2006-2015. The years were chosen as the reference period for the gathering of the required data. The study adopted purposive/judgmental techniques as the methods used in selecting the sample from the population.

4. RESULTS

4.1 Regression Analysis

4.1.1 Test of Hypothesis 1: There is no significant influence ofBoard Size (BS) on Quality of financial reporting of quoted consumer goods manufacturing firms in Nigeria.

Table 4.1.1 Regression Analysis

Variable	**Pooled Model**			**Fixed Effect Model**			**Random Effect Model**		
	Coefficient	**t-Stat**	**Prob.**	**Coefficient**	**t-Stat**	**Prob.**	**Coefficient**	**t-Stat**	**Prob.**
C	0.02	1.13	0.26	0.08	1.87	0.06	0.03	1.19	0.23
lnBS	0.01	0.08	0.93	-0.05	-1.31	0.19	-0.01	-0.07	0.94
R^2	0.01			0.12			0.01		

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F-Stat	0.006	1.26	0.005
Prob.	0.93	0.24	0.94
Obs	130	130	130

Dependent variable AQ ***Significance at 5%**

Source: Researcher's E-view Regression Analysis Output, 2018

Therefore, model 1; $AQ_{it} = \alpha_1+\beta_1 LnBS_{it} + \mu_1$

Interpretation and A priori expectations

The regression estimate on table 4.1.1 shows the results of the pooled, fixed, and random effect model. In the pooled model, Board Size (BS) has a positive effect on Quality of financial reportmeasured by Accrual Quality (AQ). The fixed effect model revealed that Board Size (BS) has a negative effect on Quality of financial report measured by Accrual Quality (AQ) while the random model also revealed that Board Size (BS) has a negative effect on Quality of financial report.

However, table 4.1.1 reveals a low R- square of 1%, 12% and 1% in the pooled, fixed and random model respectively. This is further confirmed by the p-value of the t-statistics higher than the acceptable 5% level of significance. Hence, the null hypothesis one stating that board size has no significant effect on Quality of financial report of selected manufacturing firms in Nigeriaisaccepted.

4.1.2. Test of Hypothesis 2: There is no significant relationship between Audit Committee (AC) and theQuality of financial report of quoted consumer goods manufacturing firms in Nigeria.

Table 4.1.2Regression Analysis

Variable	**Pooled Model**			**Fixed Effect Model**			**Random Effect Model**		
	Coefficient	**t-Stat**	**Prob.**	**Coefficient**	**t-Stat**	**Prob.**	**Coefficient**	**t-Stat**	**Prob.**
C	0.03	7.96	0.00	0.03	4.77	0.00	0.03	7.88	0.00
AC	-0.02	-2.32	0.02	-0.01	-0.53	0.59	-0.02	-2.29	0.02
R^2	0.04			0.11			0.04		
F-Stat	5.38			1.14			5.34		
Prob.	0.02			0.33			0.02		

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Obs	130	130	130

Dependent variable AQ ***Significance at 5%**

Source: Researcher's E-view Regression Analysis Output, 2018

$AQ_{it} = \alpha_1 + \beta_2 LnAC_{it} + \mu_2$

Interpretation and A priori expectations

The regression estimate on table 4.1.2 shows the results of the pooled, fixed, and random effect model. Audit committee (AC) has a negative significant effect on Quality of financial report measured by Accrual Quality (AQ) in the random model and pooled model but positive significant effect on Quality of financial report measured by Accrual Quality (AQ) in the fixed effect model. However, table 4.1.2 reveals a low R- square of 4%, 11% and 4% in the pooled, fixed and random model respectively.However, the t-stat is significant at 5% in the pooled and random model. As such, the modelisstatistically significant.

Therefore, the negative effect that audit committee (AC) has on Quality of financial report is statistically significant. Hence, the null hypothesis two stating that audit committee has no significant effect on Quality of financial report of selected manufacturing firms in Nigeriaisrejected.

4.1.3. Test of Hypothesis 3: There is no significant influence of CEO Duality (CD) on the Quality of financial report of quoted consumer goods manufacturing firms in Nigeria.

Table 4.1.3 Regression Analysis

Variable	**Pooled Model**			**Fixed Effect Model**			**Random Effect Model**		
	Coefficient	**t-Stat**	**Prob.**	**Coefficient**	**t-Stat**	**Prob.**	**Coefficient**	**t-Stat**	**Prob.**
C	0.01	0.84	0.40	0.01	0.54	0.59	0.01	0.78	0.43
CD	0.01	0.81	0.42	0.02	1.05	0.29	0.01	0.87	0.39
R^2	0.01			0.12			0.01		
F-Stat	0.65			1.21			0.75		
Prob.	0.42			0.28			0.38		
Obs	130			130			130		

Dependent variable AQ ***Significance at 5%**

Source: Researcher's E-view Regression Analysis Output, 2018

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$AQ_{it} = \alpha_3 + \beta_3 LnCD_{it} + \mu_3$

Interpretation and A priori expectations

The size of the coefficients implies that a unit increase CEO Duality (CD) will cause a 1%, 2%, 1% unit increase in quality of financial reportmeasured by accrual quality (AQ) in the pooled, fixed and random model respectively. However, table 4.1.3 shows the R- square of model three, which indicates that 1%, 12% and 1% variations in quality of financial report can be attributed to CEO Duality (CD)while the remaining 99%, 88% and 99% is caused by other explanatory factors outside the pooled, fixed and random effect model respectively. This is further confirmed by the p-value of the t-statistics higher than the acceptable 5% level of significance. As such, the model is not statistically significant.

Therefore, the positive effect that CEO Duality (CD)has on quality of financial report is not statistically significant. Hence, the null hypothesis three stating that CEO Duality (CD) has no significant influence on quality of financial report of selected manufacturing firms in Nigeriais accepted.

5. SUMMARY AND CONCLUSION

The focus of this study was to investigation the effect of corporate governance on quality of financial report. In the study, we used three corporate governance proxies namely Audit Committee, Board Size and CEO Duality as (independent variable) while Accrual Quality was used as the dependent variable to measure Quality of financial report.

This study revealed that board size (BS) has a positive effect on Quality of financial report measured by Accrual Quality (AQ) in the pooled OLS; this is in consonance with the result of Ogneva (2008). Conversely, the fixed effect model and the random effect model revealed that board size ha negative effect on the financial reporting quality, though not significant. However, the number of members on the board might not really influence the financial reporting quality rather the level of the financial experience of the board member could influence the quality of financial reporting. Arguably, if the board has less sufficient accounting knowledge especially in the age of IFRS, the financial reporting quality could be jeopardizing.

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