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EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL REPORTING QUALITY OF QUOTED FINANCIAL AND NON-FINANCIAL FIRMS IN NIGERIA

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Abstract

Studies have revealed that over the years, organisations with supposedly good financial standing are seen to have problems as a result of their financial practices. The study investigated a combined effect of corporate governance components on financial reporting quality of quoted financial and non-financial firms in Nigeria. The study adopted ex-post facto research design. Purposive sampling technique was used to select 30 quoted financial and 30 quoted non-financial firms in Nigeria of 161 listed companies on the Nigerian Stock Exchange for the period 2003-2017. The multiple regressions was employed to test the inferential statistics. Findings revealed that corporate governance (CG) has joint significant effect on financial reporting quality (FRQ) of quoted financial and non-financial firms in Nigeria (Adj. $R^2 = 0.41$, $F_{(6, 444)} = 13.20$, $p < 0.05$), (Adj. $R^2 = 0.49$, $F_{(6, 444)} = 15.51$, $p < 0.05$) respectively. The study concluded that corporate governance has significance effect on financial reporting quality of quoted financial and non-financial firms in Nigeria. The study recommended that management should ensure they comply with code of corporate governance to give credibility to the financial report.

Keywords: **Accrual quality, Corporate governance, Financial firms, Non-financial firms, Nigeria.**

Introduction

Corporate scandals in the world created concern about the various types of financial practices carried out in organisations, thus the great concern of investors about the quality of financial reporting in organisations. According to Berndt and Leibfried (2007), corporate collapse around the world has shaken the confidence of stakeholders in financial reporting. The fall of companies in the world like Enron, Parmalet, Xerox, HealthSouth, Toshiba Corp, Lucent, Adelphia, Tyco, WorldCom, Maxwell pension scandals, Satyam, Reebok (Aggarwal, 2013; Agarwal & Chadha, 2005; Haat, Rahman & Mahenthiran, 2008; Reddy, Locke & Scrimgeour, 2010; Surbakti, Shaari & Bamahros, 2017), has been attributed to poor accounting practices as a result of unethical conduct and misuse of power by both preparers of financial statements and auditors (Aggarwal, 2013); poor and weak corporate governance (Gaio & Raposo, 2014; Haat, Rahman & Mahenthiran, 2008). The accounting scandals evidenced in companies brings about the urgent need of the effectiveness of accounting standards, auditing processes and financial reporting practices so as to have accounting information that is reliable (Adeyemi & Asaolu, 2013).

The important aspect of financial reporting is its focus on the information needed by the external users for decision-making and satisfying the information needs with the financial reporting practices carried out in organisations (McNally, Eng & Hasseldine, 2012).Financial reporting is expected to provide useful information for decision-making of stakeholders and aims at ensuring the availability of fair information for effective allocation of scarce resources (Mohammadi, Heyrani & Golestani, 2013). However, the reliability of the information provided depends on various practices carried out by firms. Financial reporting is an essential aspect in accounting information system which gives important information for the decision-making by stakeholders. Financial reporting aims at provision of reliable information for users' decision-making (Majiyebo, Okpanachi, Nyor, Yahaya & Mohammed, 2018).

The Financial Reporting Council of Nigeria (FRCN) revisited the Code of Corporate Governance. The public debate and contribution on the best practices of corporate governance and public hearing in the South West zone held in Lagos on July 19, 2018. The FRCN (2018) released the draft of Nigerian Code of Corporate Governance for the comments of the public, revealing the FRCN intention to ensuring good corporate governance practices in both private and public sectors in Nigeria. This is issued in line with the leading international governance practices with the aim of ensuring corporate accountability and business prosperity (FRCN, 2018). It was paramount to issue this code so as to address the challenges experienced in various sectors.

Corporate governance system is defined as "the system by which business corporations are directed and controlled" (Cadbury Committee, 1992, p.15). Effective application of corporate governance is expected to yield good financial reporting practices. The Organisation for Economic Cooperation and Development (OECD, 2004) revealed that corporate governance is the major tool in the improvement of economic efficiency, growth and enhancements of investor's confidence. Also, good corporate governance in organisations often attracts a reward from the capital market as it attracts more investment in such companies. The OECD principles focus on the protection of shareholders right, treatment of shareholders in an equitable manner, stakeholders' role in corporate governance, disclosure and transparency and board responsibility (OECD, 1999).

Over the year, financial reporting of Nigerian companies is found weak and deficient thereby making the presented companies information far from economic reality for users of financial statements to make informed decisions (World Bank, 2004). Also, empirical evidence indicates weak reporting practice in Nigeria (Unuagbon & Oziegbe,2016). Inadequate enforcement and monitoring result to financial reporting failure (Norwani, Mohamad & Chek, 2011). The falls of companies once with good standing have affected the confidence of stakeholders' reliance on financial reporting negatively (Leung & Ilsever, 2013). The fall of companies is acclaimed to poor accounting practices which result in unethical conduct and misuse of power (Aggarwal, 2013), poor and weak corporate governance (Gaio *et al.*, 2014; Haat, *et al.*, 2008), thus influencing the quality of financial report in firms.

Adegbie and Fofah (2016) revealed ethical irregularities and poor corporate governance as factors affecting the quality of financial reporting. Governance issues affect the quality of financial reporting (Klai &Omri, 2011). However, good governance practices are seen to impact on the quality of financial reports of firms with a key determinant factor of independence on the success of financial reporting quality (Abu- Rizheh & Al-Sa'eed, 2012). Empirical studies investigated relationship between accrual quality and corporate governance of financial firms (Nkanbia-Davies, Gberegbe, Ofurum & Egbe, 2016), non-financial firms (Bradbury, Maki&Tan,2006; Kusnadin, Leong, Suwardy & Wang, 2016) and listed firms (Bistrova *et al.*, 2012); the studies found negative relation between corporate governance with the level of accruals (Bistrova & Lace, 2012), mixed relationship (Kusnadi *et al.*, 2016; Nkanbia-Davies *et al.*, 2016). Monitoring characteristics influences the financial reporting quality (Hassan, 2013).

A good number of studies have examined various aspects of corporate governance on financial reporting in the developed countries. Some of the studies focused on a particular industry such as banks, insurance sectors, manufacturing sectors, food and beverages. In the developing countries, few empirical evidence exist, especially as it relates to Nigeria. Hence, the objective of this study is to examine the effect of corporate governance on financial reporting quality in financial and non-financial firms in Nigeria.

Literature

The separation of ownership of companies from the management brought the need of good governance in companies. This is so because of agent-principal relationship as the interest of management differs from shareholders. Managers make decisions to their favor not considering shareholders interest(Hope &Thomas, 2008).Corporate governance is defined as:

> The systems by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of the right and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance (Cadbury Committee, 1992, p.15).

Corporate governance pillars include disclosure and transparency, responsibility and accountability, integrity and fairness. (Armstrong, Guay & Weber, 2010; Keay & Loughrey, 2015; Holm & Schuler, 2010).

The board carry out its duties in an effective and efficient manner when it has the requisite skills and appropriate mix. The board composition should include the following: mix of the executive and non-executive directors shall be headed by a chairman, not exceeding 15 and less than 5 while the banks should not exceed 20 members, chairman should be a non-executive position and not having an office in the business premises of the company, board should not be dominated by an individual. In the case of the banks, no two members of the immediate extended family shall be on the board at the same time, position of the chairman and the chief executive officer (chief executive officer should be separated from the chairman so as to avoid undue concentration of power. However, in exceptional circumstances where this position is combined, there should be the existence of a strong non-executive, non-independent director as the vice chairman; members should be upright, knowledgeable and have integrity and Executive Director remuneration should be determined by a remuneration committee of the board, made up of wholly or mainly non-executives (Code of Corporate Governance, 2011; Code of Corporate Governance for Consolidated Banks, 2006; Marshall, 2015). The board is expected to be of a size that will effectively carry out its responsibility of overseeing, monitoring, directing and controlling of the activities of the company (FRCN, 2018). The board should comprise the appropriate mix as this is essential to enhancing their performance.

The audit committee should comprise not more than one executive director and shareholders subject to the maximum number of six. The qualities and experience of the composition of the audit committee include the ability to read, write and have basic understanding of the financial statement so as to make valuable contributions at the meetings, having integrity, dedication, thorough understanding of business, business risk, dependable judgment and making constructive suggestions, ensuring oversight functions of financial and non-financial reporting, preservation of auditors' independence (Code of Corporate Governance, 2011; FRCN, 2018).

Audit committee presence in any organisation is recognised worldwide as an essential aspect of corporate governance (Barako, Hancock & Izan, 2006). Audit committee presence in organisations is expected to have an oversight of the processes in financial reporting and communicate this on behalf of the investors to the external auditors (Bushman & Smith, 2003).Overseeing the company's financial reporting process primarily lies on the audit committee, and this involves the financial statement integrity, internal control effectiveness with internal and external auditors' monitoring (Kusnadi *et al.*, 2016). It is essential for companies to have independent audit committee members as their presence go a long way in influencing the financial reporting processes of firms. The presence of independent audit committee assists in bringing differences in the opinion of both management and external auditors so as to arrive at report of high quality in firms (Kusnadi *et al.*, 2016). Effective audit committee brings about effectiveness, reliability, efficiency, dependable and good corporate governance in firms which makes the financial report of such firms more reliable for decision making (Owolabi & Dada, 2011).

Audit committee size was measured by the number of audit committee members elected on the board. Audit committee independence was measured by the number of independent non-executive directors to the total number of audit committee members, and audit committee meetings were measured by the number of meetings held in the year.

Financial Reporting Quality

Financial reporting quality is emphasised by the Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB). However, no measurement method for quality has been universally provided and arbitrary techniques have been used by researchers in the evaluation of quality of financial reporting (Hassan & Omar, 2016). Accrual method, conservatism, value relevance and qualitative characteristics of financial statement have been generally applied by researchers. Financial reporting quality aims at transparency promotion, thereby presenting high-quality financial report (Hassan, 2013). Several empirical evidence use influences on financial reporting as a measure of financial reporting quality, also indicating quality of financial report associating with various influences (Herath *et al.*, 2017). One of the significant models used in measuring the quality of financial reporting is the accrual quality. This is the accrual basis in accounting where revenues are recognised from the collection of cash and expenses are separately recognised from cash payments. The cash flows in an organisation should match both its accrued revenue and expense. However, the actual match varies in the practices carried out by entities and over a period of time. Subsequently, the actual revenue received as cash and payment for costs might be less than accrued estimation of revenues generated or cost that is derived (Herath & Albarqi, 2017). Revenues are independently recognised as cash collection while expenses is recognised as cash payments. It is expected that the operating cash flow in an organisation should relate to the accrued revenues and expenses within the operating cycle; but in practice, this varies. The revenue accrued might exceed the actual cash that is collected or less. Equally, outflows of cash from servicing warranty claims might be different from warranty expenses using the accrual basis. It has been proved that the variability during the operating cycle of an organisation of the accrual and cash flows brings about a lower accrual quality in an organisation (Pounder, 2013).

Changes of board composition and the degree of independence have no influence on the quality of the accounting information (Klai *et al.,* 2011). Incremental audit committee independence has no influence on quality as audit committee already consists of independent directors (Suwardy & Wang, 2015).Strong corporate governance brings about a broad vision of accounting process, and this is associated with reported earnings (Heirany, Sandrabadi & Mehrjordi, 2013).Corporate governance brings improvement of financial reporting quality indicating that higher level of board characteristics, audit committee, board size and growth bring about financial reporting of high quality (Akeju & Babatunde, 2017). Zheng (2010) argued that there is better reporting quality in countries with a strong capital market than in the countries with an emerging market or those with a weak capital market. Monitoring characteristics influences the financial reporting quality (Hassan, 2013). Good governance practices have impact on the financial reporting quality of firms with a key determinant factor of independence on the success of financial reporting quality (Abu- Rizheh *et al.*, 2012). Independent board brings about the enhancement of financial reporting quality. Also, the composition of audit committee given by code of corporate governance yields improvement in the financial reporting quality (Majiyebo *et al.*, 2018).

The positive accounting theory was developed by Watts and Zimmermann 1978. Positive accounting theory helps us to understand what is happening in the world and reasons why organisations act the way they do. Positive accounting theory gives understanding to what is happening in the world and reasons organisations act a certain manner. This theory gives understanding to decision users make with respect to accounting information, making organisations to take more informed economic decisions about how and why they present information the way they do (Kabir, 2011). Positive accounting theory indicates implications to choices of accounting methods. The management ensures accounting choices that will yield maximum benefit to the entire organisation despite agency problem.

Empirical Review

Nkanbia-Davies *et al.* (2016) examined corporate governance and earnings quality of listed banks in Rivers State from 2010 to 2014 using regression analysis and Pearson product moment correlation and findings suggested that corporate governance has a positive relationship with earnings quality. The board size and independent directors has a positive association with accrual quality and no relationship between the audit committee independence and accrual quality. However, Bistrova *et al.* (2012) examined the quality of corporate governance system and quality of reported earnings using 118 companies listed on the Central and Eastern European stock exchange from 2007 to 2010 and found quality of corporate governance to be negatively related with the level of accruals.

Kusnadi *et al.* (2016) investigated corporate governance and financial reporting quality of listed non-financial companies in Singapore for year 2010 using cross-sectional regression analysis. The proxies for corporate governance include independence, expertise and overlapping membership. Accrual quality was used as a proxy of financial reporting quality. Findings suggested higher financial reporting quality with a mixed presence of expertise, finance and supervisory. Presence of audit accounting expertise has significant influence on financial reporting quality. However, audit committee comprised more independent audit committee and its increment was not found to enhance financial reporting quality. There was no significance influence between incremental audit independence and financial reporting quality. Also, there is no influence between overlapping membership, remuneration committee and financial reporting quality. They recommended the presence of diversity audit committee expertise including those with accounting expertise and finance or supervisory expertise to enhance the monitoring role in order to have a higher financial reporting quality. The firms should improve corporate governance so as to enhance the effectiveness of financial reporting quality.

Bradbury *et al.* (2006) investigated board characteristics, audit committee characteristics and abnormal accruals from Singapore and Malaysia for the year 2000 excluding financial, mining and property firms. It shows that audit committee size and audit committee independence relatively have a lower abnormal working accruals. Reduction in the income level thereby increment in abnormal accruals indicates the effectiveness of audit committee in the process of financial reporting. The effectiveness of audit committee is seen in organisations within dependent directors.

Adebiyi (2017) examined board composition and financial reporting quality using 15 deposit money banks in Nigeria from the period of 2005 to 2016 using Ordinary Least Square (OLS) regression. The proxies for corporate governance include board size, board meeting and board independence. The discretionary accruals was used as the proxy for financial reporting quality and found a positive relationship between board size and board independence and

discretionary accruals and a negative relationship with board meetings. They recommended that the board size of banks should not be too large and meetings should be carried out on a regular basis so as to carry out their monitoring oversight functions.
Fathi (2013) investigated on corporate governance system and financial information quality in French listed companies from the period of 2004 to 2008 using financial companies and found a positive relationship between governance and quality of financial reporting. There is a positive relationship between financial information quality and quality of board and ownership structure. The overall index of governance revealed a significant result for the three models affirming quality of governance system having a significant relationship with the quality of financial reporting. The three indices used in the study include board of directors, ownership structure and audit quality. However, Gois (2014) also studied on financial reporting quality and corporate governance using Portuguese firms. However, changes of board composition and the degree of independence have no influence on the quality of the accounting information.

Akeju *et al.* (2017) in their study in Nigeria on corporate governance and financial reporting quality of 40 listed companies on the Nigerian Stock Exchange (NSE) from 2006 to 2015 using multiple regression found that corporate governance brings improvement of financial reporting quality indicating that higher level of board characteristics, audit committee, board size and growth bring about financial reporting of high quality in Nigeria. Corporate governance code has a significant relationship with financial reporting quality. High board characteristics, audit committee, board independence, board size and growth yields high financial reporting quality. Also, Eyenubo *et al.* (2017) investigated audit committee size and financial reporting quality of 189 financial and non-financial firms in Nigeria from the period of 2011 to 2015 using correlation and regression analysis and found a positive significance between audit committee size and financial reporting quality.

Onuorah and Imene (2016) investigated corporate governance and financial reporting quality from Nigeria in some selected companies including manufacturing, service and banking from the period of 2006 to 2015 and findings suggested correlation between corporate governance such as board structure size and independence, audit committee size, the quality of external audit, board experience and financial reporting. Board size, experience and the quality of external audit have positive impact on the financial reporting quality which is measured by the discretionary accruals. However, independent directors on the boards of firms and audit committee size negatively affect financial reporting quality. This reveals that there is short run relationship among audit committee size and the quality of external audit as measured by the presence of an auditor among the big 4. Financial reporting quality was measured by discretionary accrual of firm. It further recommended bringing about global standard financial reporting in Nigeria emerging market for investment.

Methodology
The study adopted the *ex-post facto* research design. This is a technique suitable for time order assessment of variables. The effect of the independent variables (compliance with code of corporate governance) on the dependent variable (financial reporting quality using accrual quality as proxy) of quoted companies for the period of 15 years from 2003 to 2017. The study examined the quantitative effect of corporate governance on the financial reporting quality of

quoted financial and non-financial firms in Nigeria by the use of audited financial statement, thereby extracting figures and amounts that indicate the practices in firms.
The population of the study included one hundred and sixty-one (161) quoted financial and non-financial companies on the Nigerian Stock Exchange as at December 31, 2017. The quoted financial and non-financial firms are all selected because of their importance to the growth and development of the economy. The quoted financial firms sub sectors include banks, insurance, mortgage carriers, brokers and services, and other financial institutions while the quoted non-financial firms sub sectors include agriculture, conglomerate, construction/ real estate, consumer goods, health care, information and communications technology, industrial goods, natural resources, oil and gas, and services. The population of the study includes 161 listed companies on the Nigerian Stock Exchange as at December 31, 2017 including 55 financial firms and 106 non-financial firms.

The purposive sampling technique which is non-probability sampling technique was used to select quoted financial and non-financial companies that consistently publish their annual financial reports from 2003 to 2017. The criteria that were employed for the selection of sample size were that the companies must be listed on the Nigerian Stock Exchange before 2003. They must be listed for the period of the entire investigation; necessary information needed for the conduction of this study must be available. The sample of 30 quoted financial firms was selected, representing 55% of the study population of quoted financial firms and sample of 30 quoted non-financial firms representing 28% of the study population of quoted non-financial firms. The panel regression model was employed using the Unobserved Effect Model (UEM) which could be fixed or random effect in order to test the effect of some selected corporate governance variables on financial reporting quality.

AQ = f(BZ, BI, BM, ACZ, ACI, ACM) …… Equation 1
The models below are for the comparative analysis between the quoted financial firms and non-financial firms.
$AQ_{it} = \beta_0 + \beta_1 BZ_{it} + \beta_2 BI_{it} + \beta_3 BM_{it} + \beta_4 ACZ_{it} + \beta_5 ACI_{it} + \beta_6 ACM_{it} + e_{it}$
β_0 = Intercept for each model
$\beta_1 - \beta_6$ =Coefficients of the independent variables
e_{it} = Disturbance terms that absorbs effect from other variables that are ignored

Francis, LaFond, Olsson and Schipper (2005) adopted Dechow and Dichev's (2002) model; the model was further extended and modified by McNichols (2002) to measure accrual. This study therefore adopted modified model by McNichols (2002) to measure accrual and is stated as follows:
$TCA_{it} = \alpha_0 + \beta_1 CFO_{it-1} + \beta_2 CFO_{it} + \beta_3 CFO_{it+1} + \beta_4 \Delta REV_{it} + \beta_5 PPE_{it} + e_{it}$
All variables are scaled by average assets.
$TCA = (\Delta CA_{it} - \Delta CL_{it} - \Delta\ CASH_{it} + \Delta\ STDEBT_{it})$
TCA = Total current accruals
$CFO_{it} = NIBE_{it} - TA_{it}$ = Firm i's Cash flow from operations in year t,
$NIBE_{it}$ = Firm i's net income before extraordinary items in year t,
$TA_{it} = (\Delta CA_{it} - \Delta CL_{it} - \Delta\ CASH_{it} + \Delta\ STDEBT_{it} - DEPN_{it})$= firm i's total current accruals in year t,
ΔCA_{it} =firm i's change in current assets between year t-1 and year t,
ΔCL_{it} = firm i's change in current liabilities between year t-1 and year t,

$\Delta CASH_{it}$ = firm i's change in cash between year t-1 and year t,
$\Delta STDEBT_{it}$ =firm i's change in debt in current liabilities between year t-1 and year t,
$DEPN_{it}$= firm i's depreciation and amortization expense in year t
ΔREV_{it} = firm i's change in revenue between year t-1 and year t,
PPE= firm i's gross property, plant and equipment in year t.
e_{it}= Residual error

Results and Findings

The degree of relationship between accrual quality (AQ). The corporate governance variables are board size (BZ), board independence (BI), number of board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and number of audit committee meetings (ACM) for the selected 60 firms, 30 firms each for the financial and non-financial firms.

Table 1 Correlation Matrix between the Variables for Financial Firms

Variables	AQ	BZ	BI	BM	ACI	ACM	ACZ	VIF
AQ	1.000							N/A
BZ	0.072	1.000						4.990
BI	-0.012	**-0.541**	1.000					1.510
BM	-0.072	**0.176**	0.035	1.000				1.230
ACI	0.037	**-0.162**	**0.215**	**-0.083**	1.000			1.420
ACM	-0.067	0.023	0.021	**0.226**	**-0.446**	1.000		1.430
ACZ	-0.076	**-0.830**	**0.480**	0.054	-0.066	**0.223**	1.000	4.640

Notes: Table 1 shows the correlation matrix of the dependent and independent variables. The dependent variable include accrual quality (AQ). The independent variables include board size (BZ), board independence (BI), board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and audit committee meetings (ACM). VIF is the measure for multicollinearity and N/A means not applicable. The values were calculated using 450 firm year observations for 30 quoted financial firms in Nigeria. Stata 14 for the estimation process. The significant correlation coefficients are in bold.

The results in Table 1 show that accrual quality has positive and weak association with board size and audit committee independence with correlation values of 0.072 and 0.037 respectively while negative and weak relation with board independence, board meetings, audit committee meetings and audit committee size with correlation values of -0.012, -0.072, -0.067 and -0.076 respectively.

The study used both the size of the correlation coefficient and the variance inflation factor to check for the presence of multicollinearity. It was discovered that the value of the correlation coefficient is below 0.7 and the value of the variance inflation factor is less than 5. This suggests that the explanatory variables of board size (BZ), board independence (BI), board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and audit committee meetings (ACM) were not perfectly correlated for the 30 selected financial firms.

Table 2 Correlation Matrix between the Variables for Non-Financial Firms

Variables	AQ	BZ	BI	BM	ACI	ACM	ACZ	VIF
AQ	1.000							N/A
BZ	0.049	1.000						2.390
BI	-0.033	**-0.425**	1.000					1.300
BM	-0.021	**0.150**	-0.037	1.000				1.030
ACI	0.104	**-0.280**	-0.041	0.013	1.000			1.260
ACM	-0.053	**0.093**	0.002	-0.013	**0.112**	1.000		1.100
ACZ	-0.018	**-0.715**	**0.366**	**-0.109**	**0.397**	**0.126**	1.000	2.440

Notes: Table 2 shows the correlation matrix of the dependent and independent variables. The dependent variable include accrual quality (AQ). The independent variables include board size (BZ), board independence (BI), board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and audit committee meetings (ACM). The values were calculated using 450 firm year observations for 30 quoted non-financial firms in Nigeria. Stata 14 for the estimation process. The significant correlation coefficients are in bold.

Table 2 shows the correlation coefficients between the dependent and independent variables for non-financial firms. It was discovered that financial reporting quality has a positive and weak relation with board size and audit committee independence with correlation values of 0.049 and 0.104 respectively, while a negative and weak relation with board independence, board meetings, audit committee meetings and audit committee size. To test for the possibility of multicollinearity, the correlation coefficient and the variance inflation factor was used, and it was discovered that the correlation coefficient values are less than 0.7 and the values of the variance inflation factor are less than 5. This implies that the explanatory variables used in this study are not perfectly correlated.

The regression results based the Park's Feasible Generalised Least Square (FGLS). For the static model, the Hausman test was conducted to determine a more efficient model. A significance of the test implies a fixed effect; otherwise, we use the random effect. However, to use the random effect model, the Bresuch-Pagan Langragian multiplier for random effect is conducted. If it is significant, we use the random effect for the purpose of our analysis, otherwise we use the pooled OLS.If the fixed effect model is selected and there is presence of serial correlation and heteroscedasticity, the Park's Feasible Generalised Least Square (FGLS) that solves the problems of serial correlation and unequal finite variance will be used.

Table 3 the empirical model is in favour of the Park's Feasible Generalised Least Square (FGLS) because the fixed effect model was selected, but there is presence of autocorrelation and heteroscedasticity. In addition, Panel B of each table presents the Adjusted R-square, F-statistic, Hausman test, Breush-Pagan Langragian multiplier test for random effects, serial correlation test, heteroscedasticity test and the Pesaran cross sectional dependence test.

Table 3Feasible Generalised Least Squares (FGLS) of Corporate Governance on Accrual Quality

Dependent Variable: AQ

	Financial Sector			**Non-Financial Sector**		
Variables	Coefficient	t-stat	p-value	Coefficient	t-stat	p-value
BZ	0.707	2.681	(0.017)	0.956	2.270	(0.024)
BI	0.780	1.115	(0.265)	0.746	0.672	(0.501)
BM	-0.089	-0.396	(0.692)	-0.375	-0.739	(0.460)
ACZ	-0.127	-0.301	(0.764)	-0.055	-0.144	(0.886)
ACI	0.933	2.378	(0.021)	1.132	2.835	(0.005)
ACM	-0.490	-2.449	(0.019)	-1.188	-2.800	(0.007)
Constant	0.731	0.838	(0.402)	0.690	0.842	(0.400)
Adjusted R^2	0.41			0.49		
F	-			-		
Wald Test	13.20 (0.003)			15.51 (0.003)		
Hausman Test	11.91 (0.025)			16.94 (0.009)		
Bresuch-Pagan RE Test	4.30 (0.019)			1.34 (0.123)		
Heteroscedasticity Test	4.7e+0.5 (0.000)			689.41 (0.000)		
Serial Correlation Test	0.106 (0.747)			1.27 (0.269)		
Pesaran CD Test	3.826 (0.000)			0.051 (0.959)		
Observations	450			450		

Notes: Table 3 reports feasible generalised least squares regression results of the effects of corporate governance on accrual quality. The dependent variable is accrual quality (AQ) and the explanatory variables are board size (BZ), board independence (BI), number of board meetings (BM), audit committee size (ACZ), audit committee independence (ACI) and number of audit committee meetings (ACM). The probability values are in parentheses.

Table 3 reports the regression results of the effects of corporate governance on financial reporting quality in selected quoted financial and non-financial firms. For the selected quoted financial firms, there is evidence that board size, board independence and audit committee independence have a positive effect with financial reporting quality in quoted financial firms in Nigeria, while board meetings, audit committee size and audit committee meetings have a negative effects with financial reporting quality among selected quoted financial firms in Nigeria. In addition, there is evidence that board size and audit committee independence have a significant positive effect with financial reporting quality among selected quoted financial firms in Nigeria (BZ= 0.707, *t*-test = 2.681, p = 0.017<0.05, ACI=0.033, *t*-test = 2.378, p = 0.021<0.05), this means that the higher the board size and audit committee independence , the higher the quality of financial reporting while audit committee meetings has a significant negative effect with financial reporting quality among selected quoted financial firms in Nigeria (ACM=-0.490, *t*-test = -2.449, p = 0.019<0.05). This means that the higher the audit committee meetings, the lower the quality of financial reports. This implies that board size, audit committee independence and audit committee meetings were significant factors influencing changes in the financial reporting quality of selected quoted financial firms in Nigeria. In sharp contrast, board independence has an insignificant positive effect with financial reporting quality of quoted financial firms in Nigeria (BI = 0.780, *t*-test= 1.115, p=

0.265>0.05) indicating that board independence is not strong enough to improve the quality of financial reporting. While board meetings and audit committee size have an insignificant negative effect with financial reporting quality of quoted financial firms in Nigeria (BM= -0.089, *t*-test= -0.396, p = 0.692>0.05, ACZ=-0.127, *t*-test=-0.301, p =0.764>0.05). Board meetings and audit committee size do not improve the quality of financial reporting. This implies board independence, board meetings and audit committee size were not significant factors influencing changes in financial reporting quality of selected quoted financial firms in Nigeria.

Concerning the magnitude of the estimated parameters, the coefficients for the quoted financial firms are 0.707, 0.780, -0.089, -0.127, 0.933 and -0.490. This implies that a unit increase in board size, board independence and audit committee independence will lead to 0.707, 0.780 and 0.933 increase in financial reporting quality respectively, while a unit increase in board meetings, audit committee size and audit committee meetings will lead to decrease of 0.089, 0.127 and 0.490 in financial reporting quality of selected quoted financial firms in Nigeria respectively.

The Adjusted R^2 measures the proportion of the changes in accruals quality in Nigeria as a result of changes in board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings explains about 41 per cent changes in financial reporting quality in Nigeria, while the remaining 59 per cent were other factors explaining changes in financial reporting quality for quoted financial firms but were not captured in the model.

The F- test of 13.20 is statistically significant with $p < 0.05$ indicated that the board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings jointly explain changes in financial reporting quality in selected quoted financial firms in Nigeria.

For the quoted financial firms, at the level of significance of 0.05, the F- test is 13.20 and P-value of 0.003 which is less than 0.05 level of significance. On the overall, the statistical significance of the model showed that the null hypothesis that corporate governance (board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings) has no significant effect on financial reporting quality in quoted financial firms in Nigeria was rejected. Thus, the alternative hypothesis was accepted that corporate governance (board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings) has a significant effect on financial reporting quality in quoted financial firms in Nigeria.

Also, Table 3 reports the regression results of the effects of corporate governance on financial reporting quality in selected quoted non-financial listed firms. There is evidence that board size, board independence and audit committee independence have a positive effect with financial reporting quality in quoted non-financial firms in Nigeria, while board meetings, audit committee size and audit committee meetings have a negative effect with financial reporting quality among selected quoted non-financial firms in Nigeria. In addition, there is evidence that board size and audit committee independence have a significant positive effect with financial reporting quality among selected quoted non-financial firms in Nigeria (BZ=

0.956, *t*-test = 2.270, p =0.024<0.05, ACI=1.132, *t*-test = 2.835, p = 0.005<0.05), this means that the higher the board size and audit committee independence, the higher the quality of financial reporting. While audit committee meetings has a significant negative effect with financial reporting quality among selected quoted non-financial firms in Nigeria (ACM= -1.188, *t*-test = -2.800, p = 0.007<0.05). This means the higher the number of audit committee meetings, the lower the quality of financial reporting. This implies that board size, audit committee independence and audit committee meetings were significant factors influencing changes in the financial reporting quality of selected quoted non-financial firms in Nigeria. In sharp contrast, board independence has an insignificant positive effect with financial reporting quality of quoted non-financial firms in Nigeria (BI = 0.746, *t*-test= 0.672, p =0.501>0.05), board independence is not sufficient enough to improve the quality of financial reporting. While board meetings and audit committee size have a significant negative effect with financial reporting quality of quoted non-financial firms in Nigeria (BM= -0.375, *t*-test= -0.739, p = 0.460>0.05, ACZ= -0.055, *t*-test= -0.144, p = 0.886>0.05). Board meetings and audit committee size do not improve the quality of financial reporting. This implies board independence, board meetings and audit committee size were not significant factors influencing changes in financial reporting quality of selected quoted non-financial firms in Nigeria.

Concerning the magnitude of the estimated parameters, the coefficients for the quoted non-financial firms are 0.956, 0.746, -0.375, -0.055, 1.132 and -1.188. This implies that a unit increase in board size, board independence and audit committee independence will lead to 0.956, 0.746 and 1.132 increase in financial reporting quality respectively, while a unit increase in board meetings, audit committee size and audit committee meetings will lead to decrease of 0.375, 0.055 and 1.188 in financial reporting quality of selected quoted non-financial firms in Nigeria respectively.

The Adjusted R^2 measures the proportion of the changes in financial reporting quality in Nigeria as a result of changes in board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings explain about 49 per cent changes in financial reporting quality in Nigeria, while the remaining 51 per cent were other factors explaining changes in financial reporting quality for quoted non-financial firms but were not captured in the model.

The F- test of 15.51 is statistically significant with $p < 0.05$. This indicates that the board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings jointly explain changes in financial reporting quality in selected quoted non-financial firms in Nigeria.

For the quoted non-financial firms, at the level of significance of 0.05, the F- test is 15.51 and P-value of 0.003 which is less than 0.05 level of significance. On the overall, the statistical significance of the model showed that the null hypothesis that corporate governance (board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings) has no significant effect on financial reporting quality in quoted non-financial firms in Nigeria was rejected. Thus, the alternative hypothesis was accepted that corporate governance (board size, board independence, board meetings,

audit committee size, audit committee independence and audit committee meetings) has a significant effect on financial reporting quality in quoted non-financial firms in Nigeria.
The study revealed that board size has a significant positive effect on financial reporting quality of quoted financial and non-financial firms in Nigeria. The board size improves financial reporting quality of quoted financial and non-financial firms significantly. The board size of not less than 5 members and greater than 20 members should be maintained for the quoted financial firms and not greater than 15 members in quoted non-financial firms to improve the quality of earnings in firms. Board size yields financial report of high quality (Akeju *et al.*, 2017). This supports the findings of Nkanbia-Davies *et al.*, (2016) who found that board size has a positive association with accrual quality. Adebiyi (2017) and Onuorah *et al.* (2016) found a positive relationship between board size and discretionary accruals. Also, Fathi (2013) found a positive relationship between governance and quality of financial reporting. This contradicts the findings of Gois (2014) who found that changes of board composition have no influence on the quality of the accounting information.

Board independence has an insignificant positive effect on financial reporting quality of both quoted financial and non-financial firms in Nigeria. The independence of the board members is not sufficient enough to influence the quality of financial reporting for both quoted financial and non-financial firms in Nigeria. The quoted financial and non-financial firms should increase their level of independence and those firms without independent board members should ensure independence. The greater the independence, the better the influence on financial reporting practices. Board independence yields financial report of high quality (Akeju *et al.*, 2017). This finding is in line with Nkanbia-Davies *et al.*, (2016) who found that independent directors have a positive association with accrual quality. Also, Adebiyi (2017) found a positive relationship between board independence and discretionary accruals. This, however, contradicts the findings of Gois (2014) who found that the degree of independence has no influence on the quality of the accounting information. Also, Onuorah *et al.* (2016) found negative influence between board independence and financial reporting quality.

Board meetings have an insignificant negative effect on financial reporting quality of quoted financial and non-financial firms in Nigeria. The increase of board meetings does not transform to improved financial reporting quality. Board meetings do not spur improved financial reporting quality of both financial and non-financial firms in Nigeria. The quoted financial and non-financial firms should adjust their meetings to a minimum of 4 meetings in a year and avoid too much excesses. The quoted financial and non-financial firms with meetings of less than 4 in a year should ensure to at least 4 meetings yearly and ensure attendance of board members. Meetings are important to be held so as to carry out monitoring oversight functions but not excessively. This supports the findings of Bistrova and Lace (2012) who found quality of corporate governance to be negatively related with the level of accruals. Adebiyi (2017) found a negative relationship between board meetings and discretionary accruals.

Audit committee size has an insignificant negative effect on financial reporting quality of both quoted financial and non-financial firms in Nigeria. Increase of audit committee size may not necessarily assist in the distribution of workload so as to dedicate more time and resources to monitoring activities. Audit committee yields financial report of high quality (Akeju *et al.*, 2017). The findings of Onuorah *et al.* (2016) are in conformity with this study and they found that audit committee size negatively influences financial reporting quality. Also, this study supports the findings of Bistrova and Lace (2012) who found quality of corporate governance to be negatively related with the level of accruals. However, the findings are in sharp contrast with the study of Eyenubo *et al.* (2017) who found a positive significant effect on audit committee size and financial reporting quality.

Audit committee independence had a significant positive effect on financial reporting quality of quoted financial and non-financial firms in Nigeria. The independence of audit committee greatly improves financial reporting quality of both quoted financial and non-financial firms. The firms should increase the independence of audit committee members and those firms without independence should ensure having members who are independent in the committee. This supports the findings of Akeju *et al.* (2017) who found that audit committee yields financial report of high quality. However, Kusnadi *et al.* (2016) found that incremental audit committee independence has no influence on quality of financial reporting. The study contradicts the findings of Nkanbia-Davies *et al.* (2016) who found no relationship between the audit committee independence and accrual quality.

Audit committee meetings had a significant negative effect on financial reporting quality for both quoted financial and non-financial firms in Nigeria. The audit committee meetings do not necessarily spur improved financial reporting quality of both quoted financial and non-financial firms in Nigeria. The quoted financial firms should ensure to have at least 4 meetings annually and ensure regular attendance of this meetings by members. The quoted non-financial firms should reconsider the number of audit meetings and ensure that members attend regularly. This is in conformity with the findings of Bistrova and Lace (2012) who found quality of corporate governance to be negatively related with the level of accruals.

Conclusion

The study examined combined effect of code of corporate governance on financial reporting quality of quoted financial and non-financial firms in Nigeria. Findings revealed that code of corporate governance (board size, board independence, board meetings, audit committee size, audit committee independence and audit committee meetings) has a significant effect on financial reporting quality of quoted financial and non-financial firms in Nigeria. The study concluded that corporate governance has a significant effect on quality of financial reporting of quoted financial and non-financial firms in Nigeria, this calls for code of corporate governance to be complied with by all firms.

The financial reporting quality of quoted financial firms in Nigeria showed that corporate governance has significant and positive effects on accrual quality as revealed by board size and audit committee independence, but significantly and negatively influenced by audit committee meetings. Similarly, for the quoted non-financial firms, board size and audit committee independence have positive and significant influence on the quality of financial reporting while audit committee meetings have a significant but negative influence on financial reporting quality. The study therefore concluded that corporate governance has a significant effect on financial reporting quality of quoted financial and non-financial firms

especially regarding the board size, audit committee independence and audit committee meetings of quoted financial and non-financial firms in Nigeria.
Conclusively, the quality of financial reports of companies relies on compliance with code of corporate governance, which emphasises on the need for adopting financial practices that will bring about credibility of the financial reports of quoted financial and non-financial firms. Therefore, code of corporate governance affects the financial reporting practices of firms which bring about good quality and boost corporate images, ensures growth and market value of companies.

Recommendations

The Board of Directors of quoted financial and non-financial firms in Nigeria should comply with the code of corporate governance that would enhance the quality of their financial statements credibility so as to boost the confidence of stakeholders in making informed economic decisions. The code of corporate governance should be strong enough to enhance good accounting process.

There is need for quoted financial and non-financial firms to ensure that independent directors monitor accounting quality effectively. The independent directors should be powerful enough to perform their monitoring roles. This will in turn improve on accounting numbers as strong code of corporate governance influences financial practices of firms. The number of board meetings held should be reconsidered and improved upon but not too frequent, they should have at least 4 meetings in a year. The meetings should be reduced and reflect more independent board members so that issues bordering on the companies would be critically considered and not biased. The size of audit committee should be limited but enough to accommodate the distribution of workload to enable more dedication of time and resources to monitoring activities in the companies. More attention should be given to compliance with the FRCN (2018) code of corporate governance in quoted financial and non-financial firms so as to reflect and impact on the financial practices. This will ensure that the capital market, money market and foreign exchange market are fed with high quality financial statements.

Policy makers and government should ensure enforcement and monitoring of compliance of all firms with the various provisions of codes of corporate governance and ensure its appropriate applications. More attention should be given to review and continuous evaluation so as to enhance effective implementation.

Suggestions for Further Studies

The study focuses on the effects of code of corporate governance on financial reporting quality of quoted financial and non-financial firms in Nigeria. Further studies may examine these effects using some control variables.

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