International Journal of Business and Technopreneurship
Volume 13, No 2, June 2023 [133-148]

UNIVERSITI MALAYSIA PERLIS

Ownership Structure and Financial Reporting Quality of Listed Non-Financial Firms in Nigerian: The Moderating Role of Audit Committee

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Received 4th March 2023, Revised 17th May 2023, Accepted 22nd May 2023

ABSTRACT

The aim of this study is to evaluate the moderating role of audit committee on the relationship between ownership structure and financial reporting quality of listed non-financial firms in Nigeria. The study used annual reports from 41 listed non-financial firms in Nigeria between 2010 to 2021 period. The study used causal research design approach. The analysis was done using descriptive statistics and multiple regression technique using Generalised Method of Moment (GMM). The findings of the study show that there is significant relationship between ownership structure and financial reporting quality and audit committee can effectively moderate their relationship. The study therefore, rejects all the null hypotheses formulated. The implications of the study are that regulators and policy makers, may encourage more shareholders representation in audit committee of listed companies and mandate financial expertise to all audit committee members. The study concludes that presence of institutional, managerial and foreign ownerships as well as sound audit committee are important for improving firms' financial reporting quality. The study therefore, recommends that in order to enhance the reporting quality, management of listed non-financial firms in Nigeria should ensure that they have effective and functional audit committee. The ownership structure should also be strengthened in order to assist in improving financial reporting quality and also improve relevance and reliability of annual reports and make it easier for the stakeholders to make appropriate decisions relevant to their needs.

Keywords: Audit Committee, Financial Reporting Quality, Ownership Structure

1. INTRODUCTION

Professional accountants, regulators, and other users of financial information continue to express grave concerns about financial reporting quality. This is due to the fact that financial reporting has conventionally served as the main channel for informing outside parties about the transactions and activities that took place within the firms. It allows users to examine a firms' financial position and performance and use that information as a reference when making financial decisions. Therefore, every person who uses financial information hopes that it will enable him to evaluate the state of the reporting entity and make informed financial decisions. However, the widespread financial statement irregularities—particularly the string of corporate scandals like Enron, Worldcom, Parmalat, and several Nigerian companies like Cadbury Nigeria Plc in 2006, Afribank Nigeria Plc in 2009, and Intercontinental Bank Plc in 2009—have seriously questioned the veracity of financial reports that are disseminated in the corporate environment as well as their ability to meet the needs and expectations of users (Akeju & Babatunde, 2017).

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Researchers have reviewed a wide range of information about the accuracy of financial reporting. Financial reporting has received an extreme amount of attention as a result of accounting standard convergence, standard harmonisation, economic crises, increased disclosure obligations, and other issues. Financial reporting quality (FRQ) issues have been shown by the surge in accounting scandals at the beginning of the twenty-first century (Adebiyi & Olowookere, 2016). Therefore, the ability to influence shareholders' investment decisions and increase market efficiency depends on high-quality financial reporting. Both the financial and non-financial sectors in Nigeria are significantly owned by long-term institutional investors, such as pension funds, mutual funds, endowment funds, and sovereign wealth funds. As of December 2022, they made up around 54% of domestic trade (Enofe, Ukpebor, & Ogbomo, 2015). Along with their superior trading abilities, devoted institutional investors can influence managers' opportunistic behaviour with their voting power and investment know-how. They are also expected to play a monitoring role by aiming for complete adherence to Corporate Governance (CG) standards. Institutional shareholders, as opposed to individual shareholders, also have more business knowledge, outstanding monitoring skills, and the financial expertise to mitigate agency issues (Adebiyi, 2023).

Additionally, as the top managers are also shareholders in the company, management equity holdings might raise FRQ. Because the management are better able to fend off a market takeover challenge for corporate control, having more stock ownership can improve reporting quality (Dhaliwal, Naiker, & Navissi, 2010). Managers with a corporate interest, however, might be more proactive and defend the organisational interest at all costs. This is due to the fact that they ought to believe that failure on the part of the firm signified failure on their part as well, and that could result in losing their equity share. On the other hand, managers who own stock in a company will work to raise the standard of reporting in order to gain more bonus. Similar to this, a developing capital market with a rapid rise in foreign direct investment makes foreign institutional investors significant players in corporate governance. The large advantage of foreign participation over individual shareholders or family ownership is supported by a number of earlier studies on foreign investors and FRQ in developing nations (Elyasiani, Wen, & Zhang, 2017). Due to stronger foreign investor shareholdings in most emerging economies than in developing countries like Nigeria, there is rapid increase in the role of foreign investors as owners and observers of firms' activities. Despite the importance of foreign investors in developing nations, the relationship between a foreign investor and FRQ in the Nigerian context has received little empirical study.

Additionally, by analysing the financial statements on behalf of the Board of Directors, the audit committee, one of the most important parts of a company's structure, has the potential to improve the reporting quality. Through crucial monitoring tasks, it might connect auditors and business managers. All listed firms must establish an audit committee in line with the requirements of Section 359 (3 and 4) and Part E Article 30 (1-4a-i) of the Companies and Allied Matters Act (CAMA), 2004, and the Revised Code of Corporate Governance, 2018, respectively. Similar to this, the Resource Dependence Theory demonstrated that relying on the audit committee's knowledge aids a company in achieving Financial Reporting Quality (FRQ) and makes managers truly accountable to shareholders by eliminating agency conflicts and problems with information asymmetry between managers and shareholders. As a result, the audit committee is a crucial monitoring tool that encourages FRQ practice for lowering these kinds of issues and enhancing information flow between agents and stakeholders of a firm, which can result in a decrease in the agency cost. The needs of both internal and external users of financial statements must therefore be met by the audit committee (Indrarini, Chandrarin, & Subiyantoro, 2019). Additionally, the audit committee is very valuable to various users in ensuring the veracity of the financial data. Given this, it serves as a moderator between Ownership Structure (OS) and FRQ in this study. This builds on earlier research, which mainly assesses the direct link between OS and FRQ alone.

Section 359(6) specifically mandates that AC assess the scope and planning of audit obligations in addition to determining whether the company's accounting and reporting standards adhere to legal requirements and accepted ethical practices. The efficacy of the company's accounting and internal

control systems must also be monitored, as well as the findings on management issues in collaboration with the external auditor and the departmental reactions thereto. In a similar vein, AC advises the board on matters such as the hiring, firing, and compensation of the company's external auditors. Additionally, they provide the internal auditor permission to look into any business operations that the committee could find interesting or concerning (CAMA, 2020). The AC must effectively oversee and advise management in accordance with both CAMA and SEC requirements (CAMA, 2004; SEC, 2018). The AC is also accountable for reviewing critical issues and conclusions regarding the firm's financial statements. By ensuring high FRQ disclosure, monitoring accounting policy, maintaining the independence of the external auditors, and enforcing compliance, the committee is equally accountable for safeguarding the interests of investors (Awwad, Rashid, & Abdullah, 2019).

The fact that Nigeria's AC composition is distinctive and noteworthy is a result of the regulators' significant efforts to rebuild investor confidence that had been damaged by earlier scandals and fraud, which in turn had resulted in annual losses of varying colossal sums in both the financial and non-financial sectors. The AC in Nigeria is different from those in developed and emerging nations in terms of size and composition; nonetheless, regulators have placed more emphasis on the AC's adequate members (Guizani & Abdalkrim, 2021). Therefore, the participation of ordinary shareholders in the AC is a recent development that has sparked discussion over the effectiveness of the AC. By improving communication between auditors and management, shareholders are expected to reduce opportunistic management practices, improve FRQ, and safeguard the independence of the auditors (Ghafran & Yasmin, 2018). Due to their passion for safeguarding their investments and enhancing the success of the company, the representation of shareholders in AC will therefore restore sanity to the committee. Investigating financial reporting is an excellent approach to evaluate a company's operational success based on its various characteristics, such as the shareholders' participation in AC.

The cost of the agency could also be reduced by the financial competence of the AC members (Asmar, Alia, & Ali, 2018; Dhaliwal, Naiker, & Navissi, 2010). Additionally, financial knowledge is likely to prevent errors in financial statements and reduce instances of financial fraud. In order to prevent any information asymmetry between the board of directors and the managers, the AC has evolved into a link between them (Enofe, Ukpebor, & Ogbomo, 2015). Additionally, they viewed the AC as the most important organisation in corporate governance since it safeguards the financial interests of shareholders. The directors who work in an AC also provide direct and efficient communication between external and internal auditors. The primary responsibility of AC is to manage and monitor the financial reporting process, according to Adebiyi and Olowookere (2016). This goal is accomplished by holding regular meetings with the internal financial managers and external auditors of the businesses to evaluate and amend the financial statements, internal accounting controls, and audit process. Therefore, in the current study, AC may be a suitable moderating variable. The moderating impact of an AC on the relationship between OS and FRQ is examined in this study. In other words, this study explores whether an AC will boost the effects of OS on the FRQ of Nigerian listed companies. This study is relevant because it supports government efforts to encourage the growth of the Nigerian capital market. The remaining sections of the paper include the literature review on the subject matter in section two, the methodology in section three, data analysis in section four and finally, section five wraps up the research and makes some recommendations.

2. LITERATURE REVIEW

2.1 The Concept of Financial Reporting Quality

The degree to which financial information is free from manipulation and accurately portrays a firm's financial status and operational performance is known as financial reporting quality (FRQ). The term "FRQ" has been defined in a number of ways. In order to inform stakeholders about a company's operations, it is defined, for example, as the precise way that the report presents information regarding business activity as it relates to future cash flows (Guizani & Abdalkrim, 2021). The extent to which

financial statements give fair, timely, and reliable information about the financial status and performance of an organisation is known as FRQ. Asmar, Alia, and Ali (2018) define FRQ as the accuracy with which financial reports convey information about the firm's operations, particularly its cash flows. The International Accounting Standard Board (IASB) views adherence to the objective and qualitative qualities of financial information as a fundamental need for FRQ. According to Oyebamiji (2023), FRQ is full and honest financial information that is not intended to perplex or deceive users. They also advocate for FRQ to fulfil the dual roles of addressing user requirements and safeguarding investors. According to Dissanayake and Nimalathasan (2019), FRQ is the intentional exploitation of the financial reporting process in the absence of earnings management. This method distorts the usefulness of earnings to its intended consumers and takes advantage of the latitude provided by accounting standards.

Enofe, Edemenya, and Osunbor (2015) describe FRQ as the precise way it presents information about a business activity and its predicted cash flows. According to Cunha and Rodrigues (2017), FRQ also refers to the extent to which financial statements convey information about the financial situation and performance of a business that is fair and legitimate. According to Almoneef and Samontaray (2019), FRQ is also the accuracy of the information provided during the financial reporting process. The financial component of company information was primarily the emphasis of this definition. The definition provided by Cunha and Rodrigues (2017), which encompasses both fair and authentic disclosure of non-financial information, is the one that is most pertinent in the context of this study. They said that comprehensive and clear information that is intended to lead users is an indication of good financial reporting. According to the International Accounting Standard Board (IASB) (2018), financial reporting's goal is to give financial data about the reporting entity that potential equity investors, lenders, and other creditors can use to help them make decisions when acting as capital providers. Undoubtedly, FRQ will improve if the qualitative characteristics of financial reporting information are met, as stated by the IASB 2018.

From the aforementioned definitions, it follows that a financial statement must be able to provide authentic/genuine information about the economic performance, financial position, and operations of cash flows in order to inform shareholders and other stakeholders of the firm's current situation. At the conclusion of a fiscal year, financial statements for businesses should have some degree of accuracy. "Quality" is what is meant by this. Therefore, it is essential that businesses produce high-quality financial reports in order to boost user confidence. Therefore, FRQ measures how transparently an entity's operating performance, financial status, and anticipated cash flows are described in its financial statements. It lowers the cost of capital and enhances resource allocation, which in turn spurs economic expansion. Because it affects economic decisions, which could ultimately have an impact on the economy as a whole, FRQ is therefore a major concern for both potential stakeholders and the entire society.

2.2.1 Institutional Ownership

The financial markets in the world's advanced nations are actively participated in by institutional investors. In recent years, investing through institutional ownership funds has gained popularity. Because they provide a level of diversification that is frequently difficult for individual shareholders to produce through indirect investment, this type of investment is appealing to both private and institutional investors. Because some securities offerings are only available to institutional investors, it also gives individual investors broad market access. Because the fund gains from operating on a larger scale, they offer economies of scale in regards to trading, custody, and transfer of securities, making them cost-effective. They also address the issue of liquidity, which is a major issue in markets with concentrated ownership (Nguyen, Nguyen, & Doan, 2020).

Three opposing viewpoints have been advanced in the literature on the effects of institutional ownership on corporate governance mechanisms: (i) Active Monitoring, (ii) Passive Monitoring, and (iii) Exploitation. The "active monitoring" perspective contends that institutional investors have the

authority to urge company executives to strengthen corporate governance procedures in order to lessen information asymmetry and boost operational transparency at the company (Ping, 2022). Institutional investors can oversee managers, assisting them in increasing the quality of managerial decisions to assure enhanced business value, with the use of advanced managerial expertise, high-quality resources, and specialised talents. The institutional investors' significant shareholdings (and voting rights) give them the ability to express any displeasure with the management of the target company, ensuring that the success of the business is never jeopardised.

The "passive monitoring" position, on the other hand, contends that institutional investors have no intention of keeping an eye on how the investee company is run on a day-to-day basis because they might only be focused on narrow financial objectives or altering portfolio needs (Guizani & Abdalkrim, 2021). According to the "passive monitoring" perspective, institutional investors occasionally purchase stock in a company in order to benefit from insider information, without necessarily intending to make a long-term commitment or improve the corporate governance and financial performance of the company. Institutional investors operate as "traders" in this situation by quickly purchasing and selling shares. As a result, the performance of the investee firms will not be significantly impacted by such institutional investors. As an alternative, the "exploitation view" contends that institutional investors could work together with the investee firm's managers to take use of the wealth of the shareholders and gain more advantages from the business (Alagla, 2023). The exploitation view contends that institutional investors fail to address organisational fraud or the theft of corporate value when they personally stand to gain from such behaviour.

Better monitoring and better corporate governance practices are the results of institutional investors' involvement in the majority of corporate governance research. As a result, institutional investors should be made a bigger part of the company's corporate governance processes, and the legal framework must support this. In view of this, the following hypothesis is formulated:

Ho_1: Institutional ownership has no significant relationship with FRQ of Nigerian listed non-financial firms.

2.2.2 Managerial Ownership

Board of directors or managerial ownership is another aspect of governance that has an impact on the board monitoring activity of managers. According to Oyebamiji (2023), this is the cumulative number of shares that Chief Executive Officers (CEOs) own, which includes restricted shares but excludes stock options. He claims that MOWN is the proportion of shares held by directors and officers. Another definition of MOWN is equity ownership of a management who has the authority to decide on company strategy and policies. The rise in MOWN compels managers to assume wealth-related consequences, which aligns management's and shareholders' interests. By doing this, managerial incentives to squander benefits and shareholder money are diminished.

The literature on MOWN and FRQ presents two different points of view. Large ownership typically causes knowledge asymmetry between internal and external investors as well as moral hazard. Arowolo and Che-ahmad (2016) claim that managerial ownership in the company increases managers' incentives to alter financial statements and makes monitoring more challenging. In contrast, Agency Theory asserts that managers with smaller stock ownership have a higher motivation to falsify accounting data in order to get around restrictions placed on compensation agreements based on accounting. Additionally, an external board with little firm ownership cannot properly oversee the managers. Al-Jaifi, Al-Rassas, and Al-Qadasi (2019); Sandra (2022) contend that the ownership by the board and management can successfully drive manager performance and generate incentives for an independent board to supervise the management.

According to Allegrini and Greco (2013), managerial ownership can raise the caliber of earnings. According to the results of the majority of earlier studies, MOWN has a negative relationship with

earnings management, which results in better FRQ and higher earnings quality (Fakhari & Pitenoei, 2017). Ownership by the board or management is therefore anticipated to inspire managers' performance. In view of this, the following hypothesis is formulated:

Ho$_2$: Managerial ownership has no significant relationship with FRQ of Nigerian listed non-financial firms.

2.2.3 Foreign Ownership

The portion of a company's share capital controlled by foreigners is referred to as foreign ownership. Two opposing perspectives on the foreign investor exist as a major institutional investor: active surveillance and transitory hypothesis. The active monitoring hypothesis states that in order to safeguard their interests and address the information asymmetry problem, foreign investors are crucial to monitoring management. Ping (2022) remarked that because foreign investors have a collective bravery to preserve their investment, they play crucial roles in managing management, similar to the ones played by outside block shareholders in developing nations. Cunha and Rodrigues (2017) note that foreign institutional investors' shareholdings have a positive relationship with a company's value, demonstrating that they have the strength and guts to closely supervise a company's operations and so strengthen its monitoring system. Foreign shareholders serve an important oversight function as major institutional investors. The possibility of management making independent decisions to disclose financial information may be restricted by external oversight by foreign investors, which would reduce earnings management.

Similar to domestic investors, foreign investors may be astute investors looking to invest in particular businesses, such as big businesses that perform well and give significant dividends. Fakhari and Pitenoei (2017) found that foreign investors hold shares in large manufacturing companies with good business performance, lower leverage, and lower information risk, indicating that foreign investors are better informed and knowledgeable about the well-performing firms than domestic investors. Foreign investors have significantly increased their voluntary disclosure of Taiwanese companies after Taiwan's restrictions on foreign investors were lifted (Ghafran & Yasmin, 2018). Therefore, as a significant institutional investor, foreign investors appear to perform a crucial monitoring function. In view of this, the following hypothesis is formulated:

Ho$_3$: Foreign ownership has no significant relationship with FRQ of Nigerian listed non-financial firms.

i. Audit Committee Size

The number of committee members, who are often drawn from the board of directors, determines the size of the audit committee. The advantage of having access to a broad knowledge base and a variety of expertise is likely to support audit committees carry out their duties more successfully (Nguyen et al., 2021). The information provided by empirical investigations on the correlation between audit committee size and FRQ is various. Indrarini et al. (2019) found no connection between FRQ and audit committee size that was statistically significant. To monitor the financial reporting process, the ideal size of audit committee has not been indicated by any of the studies. Studies that support an appropriate audit committee size in relation to other financial reporting outcomes come to contradictory and inconclusive conclusions. For instance, research has shown that larger audit committees are better equipped to withstand managerial collusion pressures and pay more attention to the overall financial accounting process (Nguyen et al., 2021).

Other research (Yanida & Widyatama, 2019; Sandra, 2022) believe that greater audit committee raises the possibility of substantial misstatement. Without a maximum, focusing on the minimal number of members in the audit committee suggests that it should have enough employees. The question of what size AC will best serve the interests of shareholders in advancing the general financial reporting procedure is raised by the apparent lack of guidance on a desirable size. Similar to this, Mardnly,

Badran, and Mouselli (2021) observe that larger audit committees appear to improve earnings quality by lowering the likelihood of restatement of financial statements and providing more control over the financial reporting processes.

ii. Audit Committee Financial Expertise

In Nigeria, the expertise criteria were established by the 2011 SEC Code, a revised 2018 CCG, and the 2006 Post Consolidation CBN Code, among other regulations, in contrast to the size criteria, which was stated by CAMA (2020). According to these standards, at least one audit committee member must be knowledgeable about accounting and financial matters. Similar requirements are set forth by the US SEC, which requires that businesses employ at least one person with financial competence. According to Aifuwa and Embele (2019), the audit committee would be more effective and capable of identifying and avoiding misrepresentation if it had access to accounting and financial expertise. A person who is financially literate or knowledgeable about accounting, finance, or financial management will improve the quality of the financial report, according to Gugong et al. (2014) study.

Alagla (2023) pointed out that the definition of the provided expertise requirement is broad. They assert that the term "financial expertise" can refer to any of the following: (1) a certified public accountant; (2) an auditor; (3) a financial officer; (4) a controller; or (5) anyone who has held a supervisory position that involves the compilation of financial statements. So, expertise can be either technical or supervisory in character, but which of these types of expertise is considered to be crucial to audit committee functions? Is it technical/accounting or supervisory/financial management? According to Alkilani, Hussin, and Salim (2019), supervisory expertise does not guarantee FRQ or an adequate grasp of accounting concerns. This is corroborated by Oyebamiji (2023), who looked at different types of financial competence and discovered that the only one that significantly affected FRQ was accounting expertise. In his investigation into the relationship between audit firm reputation and audit quality, Alagla (2023) used the financial knowledge of the audit committee, as measured by the proportion of members with accounting experience, to control for audit quality. They discovered a weak but significant correlation between audit committee and audit quality. Similarly, Adebiyi (2023) found a negligible positive relationship between AC expertise and FRQ. The percentage of board members having experience in finance and accounting was used by the researchers to measure expertise.

iii. Shareholders Representation in Audit Committee

Shareholders in the audit committee might demonstrate more tenacity in the audit committee's work to protect their investment. An audit committee made up of shareholders, according to Nguyen, Lien, and Anh (2021), can improve decision-making. In addition, they claimed that a committee with shareholding members is more likely to disagree with external auditors who provide a going concern report when the effect of projection from such a report is uncertain (Al-Amin & El-Fakki, 2013). Furthermore, due to the size of the shares held, large shareholders on the audit committee are more likely to perform effectively. Additionally, they are in a better position to combat managerial myopia by urging managers to build profitable, long-term portfolios (Allegrini & Greco, 2013). The shareholders must successfully balance their roles as owners and financial report producers in order to produce high-quality financial reports that can be evaluated within the parameters of the regulation (Abernathy, Barnes, Stefaniak, & Weisbarth, 2017).

Additionally, shareholders who are audit committee members are inclined to improve the quality of financial reporting as well as the committee's and the company's overall reputation. Because investors and other stakeholders are more interested in a company's qualitative financial report and because major shareholder equity corporations are showing concern. With the inclusion of shareholders on the audit committee and the authority of the audit committee, shareholders can effectively check Executive Directors' (ED) powers related financial reporting activities and protect the auditor in carrying out their responsibilities. With the addition of shareholders to the audit committee and the

power of ownership, shareholders can effectively check Executive Directors' (ED) powers related financial reporting activities and protect the auditor in carrying out their responsibilities (Abubakar, Abdulsallam, & Alkali, 2017). Additionally, the existence of shareholders has boosted public confidence in financial reports (Guizani & Abdalkrim, 2021). In view of this, the following hypotheses are formulated:

Ho_4: Audit committee has no significant relationship with FRQ of Nigerian listed non-financial firms.
Ho_5: Audit committee does not significantly moderate the relationship between the OS and FRQ of listed non-financial firms in Nigeria.

2.2.4 Conceptual Framework

Following a review of related literature, it is vital to build a conceptual framework, which is crucial for illuminating the study's variables and interactions. The link between OS and FRQ has been chosen to be moderated in this study by the audit committee. Institutional ownership, managerial ownership, and foreign ownership make up the independent variable, while audit committee serves as the moderator and FRQ serves as the study's dependent variable. The study's control variables include the age, size, growth, and leverage of the companies. The study's framework is depicted in Figure 1.

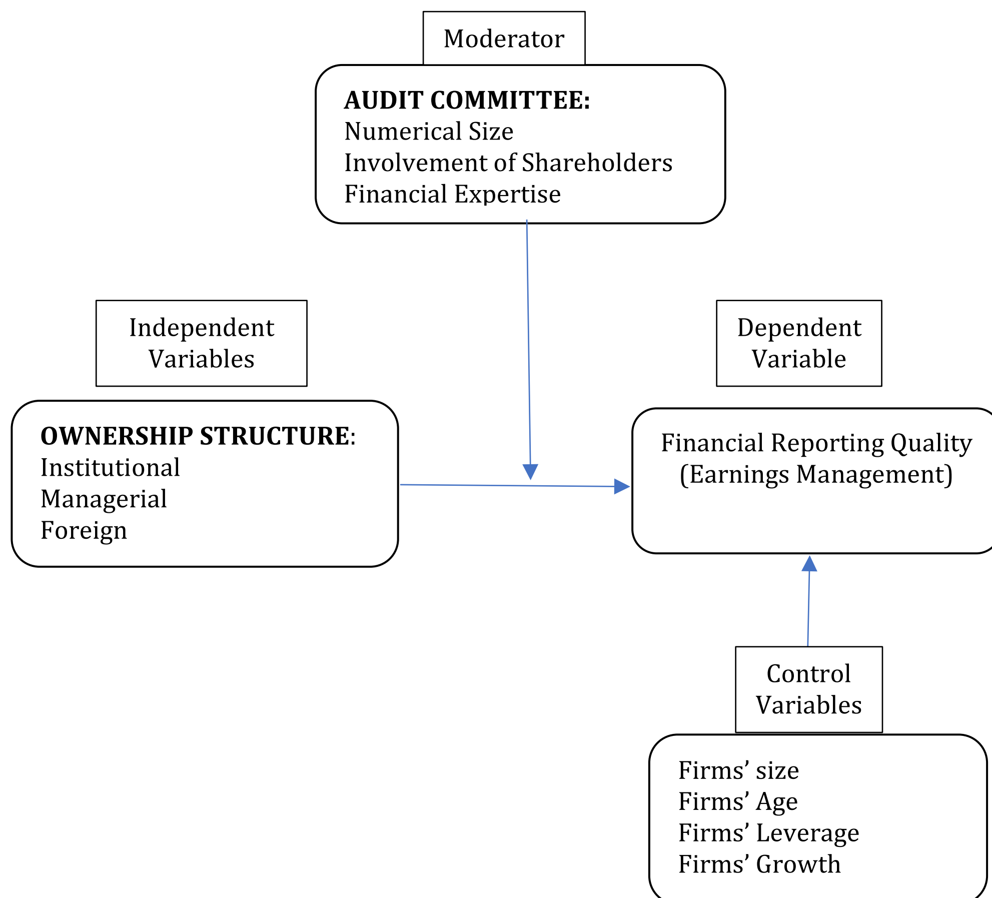

Figure 1. Research Framework

2.3 Theoretical Framework

The relationship between the explanatory factors employed in the financial reporting model and the explained variables has been studied in the past using a variety of theories. The study, is mainly based on Resource dependency theory.

2.3.1 Resource Dependency Theory

The American organisational theorist Gerald R. Sa-lancik and the American theorist Jeffrey Pfeffer created the Resource Dependency Theory in 1978 at Stanford University. Article of "The External Control of Organisations, A Resource Dependence Perspective" is when the Resource Dependence Theory was originally introduced. The resource dependency is meant to serve as a manual for creating and running organisations with external constraints (Oyebamiji, 2023).

Resource Dependence Theory views an organisation as an open system that is reliant on external environment variables, with its core tenet being to ensure organisational survival by avoiding any scenario of uncertainty or dependency. However, managers can take a number of steps, where the idea of power plays a key role, to lessen environmental dependence and uncertainty. Numerous studies, including Abu-Siam (2014), Ping, (2022), Indrarini, et al. (2019), Elyasiani et al. (2017), and Dissanayake and Nimalathasan (2019), verified and employed Resource Dependence Theory as a foundation to explore and explain the influences of surroundings on organisational interactions.

The focus of Resource Dependency Theory is on the board of directors' role in facilitating the firm's access to resources. Resource Dependency Theory, according to Gugong, Arugu, and Dandago (2014), focuses on the part directors play in supplying or securing crucial resources to an organisation through their connections to the outside world. The appointment of representatives from independent groups is highlighted by resource dependency theorists as a strategy for acquiring access to the resources necessary for a firm's development. Directors, according to Bacha and Attia (2016), board of directors provide the company with resources like knowledge, expertise, legitimacy, and access to important stakeholders like suppliers, purchasers, public policymakers, and social organisations. Resource Dependent Theory is pertinent to the current study because it clarifies how directors in the audit committee contribute to or secure vital resources for the organisation through their connections to the outside world. Therefore, this theory is used in this study since it suggests that the audit committees serve as the firm's resource supplier, ultimately enhancing the firm's audit quality. The company gains valuable resources from the audit committee's knowledge and experience, which increases internal monitoring and improves the caliber of financial reporting (Ping, 2022). The audit committee becomes more resourceful and the audit quality will be improved under the Resource Dependency Theory because of the various skills, knowledge, and expertise that are shared among the members (Elyasiani et al., 2017).

3. METHODOLOGY

This study engaged a causal research design because it examined a before and after situation. The examined the relationship between OS on FRQ and the impact of AC's role in moderating the relationship between OS and FRQ of listed non-financial firms was explained. The population of this study is listed non-financial firms in Nigeria between 2010 and 2021. They are the target population because they can provide a good source of information on annual financial reports of listed firms in Nigerian. Going by the appraisal of the listed companies, the total population was 96 firms; less 21 firms delisted within the period under study; 34 firms with incomplete data were not considered. Therefore, the total non-financial firms with complete 11-year annual reports are 41 firms which constitute the sample of the study.

Both descriptive and inferential statistics were used in the study. Tables were used to display the descriptive data, which included mean, minimum, maximum, and standard deviation. Because it allows for non-normal stochastic and non-linear systematic components, the Generalised Methods of Moment (GMM) regression was employed to test the hypotheses as used in the studies conducted by Uwuigbe, et al. (2018), Ping, (2022), Alagla, (2023) and Elyasiani et. Al (2017). With Stata software version 14.0, dynamic panel data were applied for this study. Because Stata is one of the most widely used software for panel data analysis, it was chosen for this study. According to Allegret, Raymond, and Rharrabti

(2016), panel data methodology was used because it is more efficient and informative, has a higher degree of freedom, and has less collinearity. This is in accordance with previous compliance literature.

In measuring financial reporting quality, the study adopted Dechow et al. (1995) modified model to predict the residuals of the model to represent to represent discretionary accruals. Discretionary accruals were deducted from the total accruals to arrive at non-discretionary accruals. The model is presented below

$$TACit = EBITit - CFOit$$

Where :

TAC is total accruals, EBIT is earnings before interest and tax minus CFO, which is the cash flow from operations for specific firms' year and industry represented by 'i' for industry and 't' for the year. The discretionary accruals were calculated using the equation below:

$$\frac{TACit}{TAit-1} = \alpha_0 + \alpha_1 \left(\frac{1}{TAit-1}\right) + \alpha_2 \left[\frac{(\Delta REVit - \Delta RECit)}{TAit-1}\right] + \alpha_3 \left(\frac{PPEit}{TAit-1}\right) + \varepsilon it$$

Where :

TA is the previous year's total assets
ΔREV is the change in revenue
ΔREC is the change in trade receivables
PPE is property, plant and equipment
Ɛ is the error term.

3.1 Multiple Regression Models

The regression analysis is conducted for OS and FRQ and consequently a multiple regression is carried out to test the role of AC in moderating the relationship between OS and FRQ. The explanatory and control variables are regressed in the model to determine their effects on the dependent variable. The study adopted the methodology used by Bacha and Attia (2016) in their analysis of moderating role of corporate governance on environmental disclosure and firm value. This study multiplies the AC index to the OS variables to create the interaction terms, which is used to test for the moderation or interaction effect. The regression model is formulated to test the hypotheses of the study as shown below:

$$FRQ_{it} = \beta0 + \beta1IOWN_{it} + \beta2MOWN_{it} + \beta3FOWN_{it} + \beta4ACCScore_{it} + \beta5IOWN_{it}{*}\ \beta6ACC_Score_{it} + \beta7MOWN_{it}{*}\ \beta8\ ACCScore_{it} + \beta9FOWN_{it}{*}\ \beta10ACCScore_{it} + \beta11FSZE_{it} + \beta12FAGE_{it} + \beta_{13}LEV_{it} + \beta14FGRW_{it}\ \varepsilon it$$

Where :

FRQ_{it} = Financial Reporting Quality
β0 = Constant;
IOWN = Institutional Ownership;
MOWN = Managerial Ownership;
FOWN = Foreign Ownership;
Accscore = Audit Committee attributes (size, expertise, shareholders representation in AC)
FSIZE = Firm’s Size;
FAGE = Firm’s Age;
LEV= Leverage
FGRW = Firm’s Growth;

$\beta_1 \ldots \beta_{13}$ = Coefficients of explanatory variables
ε = Standard error
i = Cross sectional (Companies)
t= Time Series (11 years)
A priori expectations in line with extant literature to be β1, β2, β3…..> 0

4. RESULTS AND DISCUSSIONS

Table 1 Descriptive Statistics of Continuous Variables

Variable	Min	Max	Mean	Sd
FRQ	0.1992	0.3512	0.28951	4.409991
IOWN	0	0.5934	0.38478	1.976035
MOWN	0.001	0.2592	0.19679	0.241494
FOWN	0	0.1217	0.07281	0.138386
ACCScore	0.333	1	0.67047	0.225060
FSIZE	229.309	991.031	454.111	0.830783
FAGE	10	55	24.7139	13.64259
LEV	1.00147	9.082789	3.19050	1.35176
FGRWT	7.733849	12.32838	9.96076	0.859846

Source: STATA 14 Output Listing, 2021

Table 1 shows the description of FRQ. The minimum value of FRQ is approximately 20%, and the maximum is 35%, while the mean value is approximately 29% indicating on the average for the sampled firms FRQ is at 29% which is not encouraging and the standard deviation is approximately 4. This shows that the IVs are good determinants of FRQ of the listed firms because the mean score is not far from the deviation.

The mean value for IOWN, MOWN, and FOWN, which are expressed as their proportion from the total equity capital, are approximately 38%, 20%, and 7%, respectively indicating that on the average their holdings is small for the sampled firms and this affects FRQ. Similarly, their minimum values are 0, 0.001, and 0, while their maximum proportions are 59%, 26%, and 12% for each of the IOWN, MOWN, and FOWN, respectively indicating that some firms within the sampled IOWN were 59% while most firms had little or no IOWN, MOWN, and FOWN which can affect FRQ. Additionally, each of the three variables has a standard deviation of 1.97, 0.24, and 0.14, respectively, revealing a reasonable and normal deviation from the mean. This demonstrates that a relatively small percentage of FOWN and an insufficient amount of institutional and management ownership are present in the majority of firms. A minimal value of almost 0 for all three types of investors reveals that some firms do not have any of the three classes of investors in their equity capital.

Furthermore, the mean, minimum and maximum value for audit committee score (ACCScore), which are expressed in discrete data, are 0.67047, 0.333 and 1 respectively with a standard deviation of 0.2250, which show a divergence from the mean as sensible and normal. This shows that the majority of the businesses followed the CCG recommendations for the audit committee's composition, which called for a minimum of three members and a maximum of six, as well as the inclusion of at least one financial expert, as required by section 11.4 (11.4.2). However, some businesses didn't follow this recommendation when it came to including shareholders on the audit committee.

Firm size (FSZE) has a minimum value of N8.309 billion, a maximum value of N12.03 billion, and a mean value of N8.31 billion when the control variables are measured as discrete data. According to business size, the average asset value of a non-financial Nigerian listed company is N12.03 billion. As

it is not far from the mean, the standard deviation of N0.83 billion indicates a normal disparity. The minimum and maximum ages of a firm are 10 and 55, respectively, with 24.71 serving as its mean age. Leverage has a mean value of 3.19 and a minimum and maximum of 1.15 and 9.08 respectively. A 1.35 departure from the mean is shown by the standard deviation. The variance is generally normal. The minimum and greatest values for firm growth are 7.73 and 12.33, respectively, while the mean value is 9.97. This demonstrates a 9.97% increase in the average revenue of Nigerian firms. As can be observed from the standard deviation, there is an 8.6% deviation from the mean, which is considered to be average.

Table 2 Two Step System GMM Regression Results

Variables	Coefficient	Std. Err.	Z-Statistics	*P*-value
FRQ	-0.0627	0.0001	-9.62	0.000
IOWN	-0.2270	0.2722	0.83	0.004
MOWN	-0.3868	4.3257	-6.42	0.020
FOWN	-0.1859	0.5126	5.71	0.000
ACCScore	-2.7032	0.2080	-7.02	0.000
ACCScore*OS	-7.7019	0.3410	-2.34	0.000
FSIZE	-0.4188	0.1409	6.68	0.026
FAGE	-0.8210	0.0033	-7.94	0.429
LEV	-0.0379	0.0136	-2.78	0.005
FGRWTH	-14.589	0.0678	-5.08	0.000
CONS	1.4378	2.9099	6.66	0.000
Statistics	**Coefficient**			***P*-value**
Wald Chi2 (24)	7.587207			0.0000
AR (2)				0.3987
Hansen Statistics				0.273
F statistics	0.279			
No of Observations	410			
No of Groups	41			
No of Instrument	35			
Sargan Test			38.7600	0.6952
Arrelano-Bond AR(2)			-0.8439	0.3987

Source: STATA 14 Output Listing, 2021

Results of tests for second-order correlation AR2 and over-identifying constraints of Hansen J-statistics are reported in this paper. There is no second-order autocorrelation, as indicated by the value for AR2 in table 2, which is 0.3987. The Hansen J-statistic, which measures how well a model's moment condition is stated and tested, simultaneously displays a value of 0.273. All of the independent variables are also used to describe the model fitness. Since an independent variable may be negligible alone, all factors are anticipated to collectively explain changes in the dependent variables. However, a variable need to be kept in the model when it is not important individually but is significant when taken as a whole (Arowolo & Che-ahmad, 2016; Uwuigbe et al., 2018). Thus, F-statistics or Wald Chi2 statistics with their associated p-values are used to determine the model's overall significance (Yanida & Widyatama, 2019).

It is assumed that all explanatory factors and interacting variables are significant and jointly explain changes in the dependent variable if either the Wald Chi2 Statistics or the F-statistics is significant with a p-value less than 5%. According to the findings of this study, the IOWN, MOWN, FOWN, FSIZE, LEV, and FGRWT are all jointly significant and so account for the changes in the model, according to the Wald Chi2 Statistics and its related probability.

The Wald chi2 (1 2) value for the model yields the following results: Wald chi2 (1 2) = 7.587207, which is statistically significant at the 1% level. This outcome demonstrates that all variables are important and must be kept in the model. Because the independent variables in the models are statistically significant and together account for changes in the dependent variable, the study's model fits the data and accurately captures all the findings.

The findings indicate that the lag one of two (1 2) lagged dependent variable is significant at a 1% level of significance, and the coefficient value utilizing the second lag is 0.062776. Second lags were required since they are not associated with the current error term. However, the first lag is correlated. Additionally, it is employed in the search for effective modelling instruments. The findings show that the instruments were utilised correctly and that the lag argument was properly stated.

The combined audit committee score demonstrates that the audit committee collectively has a large impact on FRQ. This suggests that the FRQ, as measured by the decline in discretionary accruals of listed non-financial enterprises in Nigeria, is higher the more effective the audit committee in a composite manner. The outcome indicates that FRQ will increase by 7.7019 if audit committee increases by one unit. When audit committee is operational (at its optimum size with financial knowledge and shareholders representation), there is a negative correlation between audit committee measured in a composite fashion and FRQ as indicated by a fall in discretionary accruals. Due to audit committee's role as a monitoring mechanism that enhances the quality of information flow between the organisation and stakeholders, the committee becomes more committed and vigilant, which reduces the likelihood that managers will manipulate or misrepresent financial records.

Hypothesis Testing

Ho_1: Institutional ownership has no significant relationship with FRQ of Nigerian listed non-financial firms.
Ho_2: Managerial ownership has no significant relationship with FRQ of Nigerian listed non-financial firms.
Ho_3: Foreign ownership has no significant relationship with FRQ of Nigerian listed non-financial firms.
Ho_4: Audit committee has no significant relationship with FRQ of Nigerian listed non-financial firms.
Ho_5: Audit committee does not significantly moderate the relationship between the OS and FRQ of listed non-financial firms in Nigeria.

Based on the regression result, institutional, foreign ownership, managerial ownership and audit committee are found to be significantly increasing FRQ. Hence the four null hypotheses (Ho_1, Ho_2, Ho_3, and Ho_4) are rejected. Similarly, based on the regression result, audit committee's interaction with OS is found to be significant. Hence the null hypothesis (Ho_5) that audit committee has no significant role in moderating the relationship between the OS and FRQ of listed non-financial firms in Nigeria is rejected.

5. CONCLUSIONS AND RECOMMENDATIONS

This study examined the moderating role of the audit committee on the relationship between the OS and FRQ of listed non-financial firms in Nigeria. The variables used in this study include IOWN, MOWN, FOWN and ACCScore. According to the study's findings, institutional and foreign shareholders enhance the financial reporting quality (FRQ) of listed non-financial firms in Nigeria because of their knowledge and experience, which motivates management to produce high-quality financial reports.

Additionally, all three of the study's three AC attributes—namely, the size of the AC, the presence of financial specialists in the AC, and the representation of shareholders in the AC—are significantly linked to FRQ. This suggests that these qualities help to promote FRQ. It has also served as a means of encouraging the directors to pursue the interest of the shareholder as it affects the FRQ of such firms, thereby gaining the trust of the shareholders based on the caliber of the information in the reports and reducing conflicts between stakeholders and managers. Similar to this, it has been discovered that the OS and FRQ's connection is improved by using The AC as a moderator.

The study discovers that while more prosperous enterprises are more vulnerable to the danger of EM, which lowers the integrity of their financial statements, older firms have no effect on improving FRQ. The study has consequently come to a logical conclusion because the total results show that the AC has a substantial and statistically significant moderating relationship between the OS and FRQ.

Against the backdrop of the findings, the following recommendations are made:

1. Firms should increase their institutional investment by giving institutional shareholders enough shares, or at least 50%. This is crucial since institutional owners frequently contribute their skill and extensive knowledge to the firms in order to help them achieve their corporate objectives and promote ethical reporting practices .

2. Firms should increase the percentage of foreign shareholders by giving them enough shares—at least 20%. As a result, the management is able to run the business with transparency and in the best interests of the company's owners and gain international recognition instead of serving the personal interests of the senior managers.

3. Firms should make sure that its executive management have a sufficient number of shares, such that their shareholding percentage is not too low. Given that managerial ownership is one of the factors that lowers EM and boosts FRQ, their shares shouldn't make up less than 10% of the company's total shares.

4. Firms should constitute optimum size of audit committee with relevant financial expertise and include shareholders in their AC in order to effectually play twofold roles of being owners and reveal their willingness and capacity to oversee the financial reporting practice that can lead to qualitative financial report. This might boost public trust in the accuracy of financial reports.

ACKNOWLEDGEMENT

The researchers wish to sincerely appreciate the Tertiary Education Trust Fund (TETFUND) of Nigeria for a full sponsorship of the study. The successful completion of this study was achieved with the tremendous support of TETFUND. We are therefore, grateful for its usual support to research and development in Nigeria.

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