CORPORATE GOVERNANCE ATTRIBUTES AND FINANCIAL REPORTING QUALITY: PRE AND POST IFRS REGIMES IN NIGERIA

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ABSTRACT

This study investigates the impact of corporate governance characteristics on financial reporting quality of companies listed on Nigerian Stock exchange in the pre and post IFRS adoption during 2010 – 2013. In this study, to determine the treatment of discretionary accruals as financial reporting quality indicator, the original Jones Model (1991) has been applied. This study specifies a multiple regression model that puts financial reporting quality as a function of theoretically proven explanatory factors. The study reveals that directors' independence, board size and firm's performance have significant impact on financial reporting quality in both pre and posts IFRS regimes in the Nigerian Listed Firms. The study also shows that gender diversity of directors and leverage had no significant negative impact on financial reporting quality in both regimes, while equity returns volatility had significant positive influence on financial reporting quality. From the study, it was revealed that there is a little decrease of 2% in the discretionary accruals and this indicates that there is a little increase in the quality of financial reporting after the adoption of IFRS in Nigeria. Although the conceptual basis and many of the general principles are quite similar under IFRS and Nigerian IAS, the application of IFRS may be nevertheless significantly different and the adoption of IFRS may bring up many changes in terms of financial reporting by Listed Companies in Nigeria. Consequently, the differences between the two regimes may impact on the leeway provided by accounting standards to aid financial manipulation. This study recommends that there is need for

Nigerian companies to increase their board size from a minimum of ten (10) to a maximum of twenty (20) as this may inject some level of dynamics into the board level interactions. Finally, the study recommends that all those personnel involved in companies financial reporting should be intensively trained to become certified accountants, and also the capacity to prepare and present financial statements conforming to accounting standard need to be exploited other than being kept idle by listed companies in Nigeria

Keywords: Financial Reporting Quality, IFRS, Corporate Governance, Firms Attributes

INTRODUCTION

The major role of financial reporting is the effective transfer of financial data to people who are outside the organization in a way that is valid and timely (Bolo & Hossein, 2007). One of the most important goals of which is to provide necessary data to evaluate the function of an economic agencies and its ability to make profits.

The necessary condition to achieve this is to provide financial data in such a way that the evaluation of the previous functions becomes possible and effective in measuring the ability to make profits and predicting future activities of economic agencies (Baradaran & Badavar, 2009). Meanwhile, recent collapses of international corporations like Enron and WorldCom on the one hand and the increase of financial reporting fraud has caused concerns about the quality of financial reporting and has wasted accounting credits (Biddle, Hilary & Verdi, 2009).

Also, in an attempt to solve problems and regain people's trust, which was once lost, the professions of accounting and auditing has thought about solutions such as changing the standards of accounting from the standards based on rules to standards based on principles emphasizing the auditors' independence and companies' management to support stockholders' profits and legislating security rules for the professions of accounting and auditing (Salehi & Bashiri, 2011).

Financial reporting quality can be defined as the precision with which financial reporting conveys information about the firm's operations, in particular its expected cash flows, in order to inform equity investors (Verdi, 2006). One of the main rights of investors is to get informed by the companies they invest. Because, they are outside the business and they make decision regarding the investments depending on the information disclosed in financial reports.

Standard setters, regulators and policy-makers all have a vital interest in the effect of financial reporting on the economy. This interest is due to the economic consequences associated with financial information. Financial report influences investors behavior with respect to portfolio selection, which in turn affects security prices and, therefore, the terms on which a firm obtains additional financing (Chen, Hope, Li & Wang, 2010).Empirical research has shown the importance of markets that work well for efficient capital allocation. When the market works well, pricing of securities is correct, the allocation of capital in the economy is efficient and everyone is better off. Financial reporting regulation is one of the mechanisms used to promote the operation of securities markets. Just as a used car dealer who develops a reputation for honesty and fair dealing will enjoy higher sales prices, a firm with a credible policy of

High quality information is expected to enjoy higher share prices and lower cost of capital. This is because high quality disclosure reduces investors' concerns about inside Information (Navarro-Garcia & Bastida, 2010).

There have been many empirical researches regarding what constitutes financial reporting quality (Soderstrom & Sun, 2007). For many European countries, the introduction of International Financial Reporting Standards (IFRS) has entailed substantial changes in accounting methods, and this change has prompted a major natural opportunity to examine the effect of IFRS introduction on financial reporting quality.

Consistently, academics around the world are now extensively studying the effects of IFRS on financial reporting quality (Byard, Li & Yu, 2011; Jiao, Koning, Mertens & Roosenboom, 2012; Armstrong, Barth, Jagolinzer & Riedl, 2010).

IFRS appear to have a positive effect on financial reporting quality and in general, it requires more extensive and sophisticated disclosures than were afforded by prior local standards and this requirement may have a positive influence on the quality of financial reporting (Adeyemi, 2012).

Earnings management, timely loss recognition and value relevance have commonly been used as indicators of financial reporting quality, although metrics such as quality indices and appropriateness also appear. All these metrics fail to directly capture the usefulness of the information to financial reporting (Barth, Landsman & Lang, 2008).

IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). They include: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and interpretation originated by the International Reporting Standards Interpretation Committee (IFRSIC) (Oyedele, 2011). IFRS represent a single set of high quality, globally accepted accounting standards that can enhance comparability of financial reporting across the globe. This increased comparability of financial information could result in better investment decisions and ensure a more optimal allocation of resources across the global economy (Palea, 2013).

Cai and Wong (2010) posit that having a single set of internationally acceptable financial reporting standards will eliminate the need for restatement of financial statements, yet ensure accounting diversity among countries, thus facilitating cross-border movement of capital and greater integration of the global financial markets.

Epstein (2009) emphasized the fact that universal financial reporting standards will increase market liquidity, decrease transaction costs for investors, lower cost of capital and facilitate international capital formation and flows. Various studies conducted on the adoption of IFRS at country level indicated that countries that adopted IFRS experienced huge increases in direct foreign investment (DFI) flows across countries (Irvine and Lucas, 2006).

Cai and Wong (2010) in a study of global capital markets demonstrated that capital markets of countries that had adopted IFRS recorded high degree of integration among them after their IFRS adoption compared with the period before adoption.

The focus of this study was aimed at establishing the effects of governance attributes on financial reporting quality during pre IFRS regime and post IFRS regime in Nigerian companies

Using a robust data set from companies quoted on the floor of Nigerian Stock Exchange.

LITERATURE REVIEW

In a study conducted by Hashim and Davi (2008) where they examined board independence, CEO duality and accrual management in Malaysia for the year 2004. A sample of two hundred (200) non-financial companies listed on Bursa Malaysia's main Board and second Board for the year 2004 was employed in the study.

The findings reveal a positive significant result of board independence when firms undershoot target earnings. Although contradictory to the prediction of agency theory, the results show that a higher proportion of independent non-executive directors are associated with higher income-increase earnings manipulations. Neither board independence nor CEO duality was found significant in other models tested regarding income-increasing and income-decreasing earnings management.

In another related study, Johari, Salehi, Jaffer and Sabrihassan (2008) investigated the influence of Board independence, competency and ownership on earnings management in Malaysia for a period of two (2) years during 2002 to 2003. A sample of two hundred and thirty four (234) firms was selected for the study. The results of the study indicate that excessive shareholding beyond 25% by managers may induce managers to manage earnings, and combined chairman – CEO roles (CEO duality) does not influence the practice of earnings in Malaysia firms. The results also indicate that the minimum composition of one-third independent directors, as suggested by the code of corporate governance in Malaysia is not adequate to monitor the management from earnings management practices.

Cormier, Ledoux and Magnan (2009) investigated financial reporting transparency and earnings quality; a governance perspective. Using a sample of one hundred and thirty six (136) companies listed on Toronto Stock Exchange, they show that web-based reporting increases earnings quality and that such transparency translates into a reduction of information asymmetry between managers and investors. Concerning the import of governance attributes on these simultaneous relationships, their results show that an independent board of directors translates into more transparency in web-based financial reporting while board size and audit committee size seem to reduce earnings management and price volatility. It was also observed in their study that a non-linear relationship between board size, earnings quality, and share price volatility exist.

Chen, Hope, Li and Wang (2010) empirically analyzed financial reporting quality and investments of private firms in emerging markets. They find three main results using data from the World Bank's Enterprise Survey (WBES) for a period of four (4) years from 2002 to 2005. First, consistent with economic theory, they show that financial reporting quality is statistically and economically significantly related to investment efficiency. Specifically, they find that accounting quality is significantly negatively associated with both over-and under investment. Secondly, they show that the importance of accounting information is increasing in

The degree of bank financing. This likely reflects the use of financial statements by banks in granting credit. Thirdly, they documented that for firms facing greater income tax pressure, the relation between accounting information and investment efficiency is reduced.

Gulzar and Wang (2011) conducted a study on corporate governance characteristics and earnings management: Empirical evidence from Chinese listed firms. The sample used for the study comprised of one thousand and nine (1009) firms over the period of four (4) years from 2002 to 2006. The study essentially shows that the corporate governance characteristics play a vital role in reducing the earnings management. They found a significantly positive association between earnings management and different corporate governance – characteristics such as CEO duality, board – meeting, female directors and concentrated ownership.

Salehi, Bighi and Najari (2012) analyzed the relationship between board characteristics and earnings management using a sample of one hundred and fifty nine (159) companies listed on Tehran stock exchange for four (4) years from 2006 to 2009. The research results show that some board characteristics which in other countries result into reduced earnings management have no effect on earnings management. It was also revealed in the study that when operating cash flow reduced, the presence of non-executive directors and changes in board members (or their agents) are effective factors in reducing earnings management level. Also, despite a significant relationship between firm size and earnings management in firms which their auditing have performed by auditing organizations, the firm size have not a significant relationship with earnings management.

Lin, Hua, Lin and Lee (2012) examined IFRS adoption and financial reporting quality in Taiwan during the period of 1999 to 2009 with a sample of 986 firms and the empirical result shows that the financial reporting quality got improved under the amendment towards IFRS adoption. In a related study, Emilly (2012) investigated international financial reporting standards (IFRS/IAS) and quality of financial reports of public reporting companies in Uganda. The study reveals that a positive and strong relationship exists between the international financial reporting standards and the quality presentation of financial statements; this has led to improvements in the financial performance.

Ahmed (2012) examined the disclosure of financial reporting and firm structure as a determinant of quoted manufacturing firm in Bangladesh using a sample of twelve (12) firms listed on DSE. The result of the study reveals a positive strong relationship between firm structure and financial reporting quality of quoted manufacturing firms in Bangladesh. Okpala (2012) conducted a study in Nigeria on the adoption of IFRS and financial statement effects on foreign direct investment (FDI).

The results of the study reveal that there is a significant relationship between IFRS adoption and FDI. And the study also show that the adoption of IFRS promote companies' access to global capital markets thereby exposing them to cross-border investments. However, the study reveals that IFRS adoption has neither made much impact in making timely and accurate reports available nor has it made the financial statements more reliable. Mahmood, Froogh, Ahmad and Yazd (2012) examined the relationship between financial reporting qualities and return volatility and the role of institutional and accounting factors. Using a

Sample of seventy (70) listed firms on Tehran Stock Exchange for a period of five (5) years (2006 – 2010), their study revealed that there is no significant relationship between financial reporting and the return volatility. Additionally, their results indicate that the type of the industry has no significant relationship with the return volatility and they also show that the net loss of the firm has a significant statistical positive effect on the return volatility.

In Nigeria, Terzugwe (2013) analyzed financial reporting quality of Nigerian firms from the perspective of users. The study administered one hundred (100) questionnaires to respondents from seven (7) user groups selected at random with a minimum qualification of first degree or Higher National Diploma (HND) to ensure high quality of responses. Taking the qualities of accounting information of understandability, relevance, consistency, comparability, reliability, objectivity and completeness and using a five point likert scale and chi-square for test of hypothesis, the study provides evidence that, the quality of annual reports and accounts of Nigerian firms is only moderate.

Andreas, Michael and Christopher (2013) investigated whether the implementation of international financial reporting standards (IFRS) has increased accounting quality. A sample of 2,500 public traded firms was employed for the period of 1996-2009. The study reveals that IFRS have had effect on analyst average ability accurately, forecast firms and earnings per share. The study also shows that in countries where prior GAAP differ from IFRS, IFRS may have the effect of presenting more consistent but no more accurate pictures of firms for analysts

Bonetti, Parbontti and Magnan (2013) analyzed the influence of country and firm-level governance on financial reporting quality in Canada. A sample of 4,425 firm year observations from 14 European countries from 2002 to 2008 was employed. The study shows that IFRS adoption per se does not seem to affect financial reporting quality.

And that in countries characterized by weak enforcement, strong board-level monitoring appears to enhance financial reporting quality, thus suggesting a substantive effect between firm and country level governance. In a related study, Cormier (2013) evaluated the relevance of financial reporting and disclosure for financial markets under IFRS in Canada for the period of 2009 to 2011 with a sample of 233 firms. The result of the study suggests that compared with Canadian GAAP, under IFRS; (1) the value relevance of earnings is enhanced (2) Non-GAAP measure have a greater impact on the value of relevance of earnings (3) financial statement notes have a greater impact on the value relevance of earnings (4) earnings have a greater impact on the cost of finance (5) stock market capacity to anticipate future earnings is enhanced (6) a slight decrease in earnings management is observed under IFRS. Uyar, Kilic and Brayyurt (2013) examined the association between firm characteristics and corporate voluntary disclosure: Evidence from Turkish listed companies. They made use of a sample of thirteen (13) manufacturing companies listed on the BIST at the end of the year 2010. Their findings provide evidence of a positive association between voluntary information disclosure level and the variables such as firm size, auditing firm size, proportion of independent directors on the board, institutional corporate ownership, and ownership diffusion were found to have negative significant association with the extent of voluntary disclosure. The remaining variables, namely,

Profitability, listing age and board size was found to be insignificant.   Furthermore,   Lee (2013) empirically investigated whether independent directors improve the quality of earnings between the periods of 2002 to 2010 in London. The research sample comprised of 6,187 observations examined.

The empirical results show that independent directors can improve the quality of earnings, and those hired because mandatory appointments had a greater positive effect on earnings quality compared to directors who were voluntarily held. It was also revealed from the study that the controlling shareholder by a controlling shareholder reduces the benefit of independent directors on earnings quality.

Waweru and Riro (2013) examined corporate governance, firm characteristics and earnings management in an emerging economy using a panel data of one hundred and fourty eight (148) firms obtained from the annual reports of the thirty seven (37) companies listed on the Nairobi Stock Exchange (NSE). The study found that ownership structure and board composition were the main corporate governance characteristics influencing earnings management by Kenyan listed companies.

It was also seen from the study that there is a significant relationship between leverage and earnings management but independence of the audit committee, firm size and firm performance are not significantly related to earnings management. Palea (2013) investigated IAS/IFRS and financial reporting quality in Europe. The empirical evidence provides that adopting IAS/IFRS improves the quality of financial reporting, thereby increasing its usefulness to investors. These effects differ according to the institutional setting of firms adopting IAS/IFRS.

Finally, Jaballah, Yousfi and Zarai (2014) investigated the effect of the quality of annual reports on investors' decisions in the Tunisian financial market. They measured the qualities of content and form of financial reports and their effects on investors' decisions, particularly on stock prices. They used a sample of one hundred and seventy five (175) publications between 2006 and 2010. The results show that the quality of the form report has an attractive effect on investors. It was also found from the study that investors are interested in well performing firms. Consequently, a high level of performance makes investors revise stock returns to the rise.

METHODOLOGY

This study utilized the more robust panel data design which may be seen as a combination of both cross-sectional and time series design properties. Panel data was used in order to achieve a satisfactory result. This study adopted the use of quantitative, statistical or regression technique in testing and assessing research questions and hypotheses.

The population consists of all companies quoted on the Nigerian Stock Exchange as at December 31, 2013. There were one hundred and ninety eight (198) companies listed on the Nigerian Stock Exchange (NSE Factbook, 2013). The sample size for this study was based on the availability of data and simple random sampling technique was used in selecting the sampled companies.

The sample companies were drawn from the following sectors, agriculture, breweries,

Building/materials, healthcare, industrial and domestic products, hotels and tourism, food/beverages and tobacco, and others. In considering sample size, Saunders, Lewis and Thornhill (2003) suggested that a minimum number of thirty (30) for statistical analyses provide a useful rule of thumb. However, because of the peculiarity of this study, we used fifty-three (57) sampled quoted firms in the Nigerian Stock Exchange that have fully adopted IFRS in the preparation of their financial statements. The sample was selected with the aid of simple random sampling techniques, to ensure statistically valid generalization.

In this study, secondary data, by way of annual reports and accounts of the sampled companies in Nigeria and some relevant NSE Fact books were used to collect data for four (4) years (2010 to 2013). This means that the data collected will consist of both cross-section (57 sampled companies) and four years' time series (2010 – 2013).

Panel data regression will be used as data analysis method for the study. The use of panel data regression methodology in this study is based on three fundamental justifications; (1) The data collected had time and cross sectional attributes and this enabled us to study financial reporting over time (time series) as well as across the sampled quoted companies (cross-section). (2) Panel data regression provides better results since it increases sample size and reduces the problem of degree of freedom. (3) The use of panel regression helped to avoid the problem of multicollinearity, aggregation bias and endogeneity problems (Greene, 2002). Consequently, the fixed and random effect was conducted in the panel regressions for the models. In any case, we used the Hausman test to select between fixed and random panel estimation techniques. The models specified were subjected to the necessary statistical tests such as collinearity, normality, homoscedasticity, autocorrelation and linearity.

Following the literature and theoretical framework of this study, our models focus on identifying governance attributes, firm characteristics and financial reporting quality in Nigeria using a robust data set from companies quoted on the Nigerian Stock Exchange. This study made use of three (3) models. The first model will be used to measure financial reporting quality. The residue from model 1 was used as a measure of financial reporting quality. The second and third models were the main models for the study where the independent variables were regressed against the dependent variable.

MODEL 1

Consistent with prior research, we used discretionary accruals as a proxy for financial reporting quality. Most prior literature uses modified Jones (1991) model because it was found to be superior to other extant methods at the time of detecting abnormal accruals i.e. discretionary accruals (Dechow & Skinner, 2000). Later Bartov, Gul and Tsui (2001) found that the cross-sectional version is better of the model because of larger sample size and it solves the problem of survivorship bias (Peasnell & Young, 2005). The cross-sectional model can also adjust the effect of changes in economic environment that affects particular industry in a particular year.

Nevertheless, we used the original Jones model because the modified Jones model requires an identification of a set of samples which can be classified as 'clean' from accounting manipulation (Abdul Aziz, 2004).

The model is described as follows:

$$\frac{TAC_{ijt}}{A_{ijt}} = \alpha_j \left(\frac{1}{A_{ijt-1}} \right) + \beta_{1j} \left(\frac{\Delta REV_{ijt}}{A_{ijt-1}} \right) + \beta_{2j} \left(\frac{PPE_{ijt}}{A_{ijt-1}} \right) + \varepsilon_{ijt}$$

Where;

TAC_{ijt} = Total accruals i.e. working capital minus depreciation and changes in short-term debt for firm i, industry j and year t-1 to year t.

A_{ijt-1} = Total assets for firm i, industry j and year t-1

ΔREV = Changes in revenue for firm i, industry j, from year t-1 to year t.

PPE   = Property, plant and equipment form i, industry j and year t.

$\alpha_j \beta_{1j} \beta_{2j}$ = Specific parameters for industry j, and

ε_{ijt} = Error for firm i, industry j and year t

MODEL 2

      The model was an adaptation and modification of Gulzar and Wang (2011). We introduced equity return volatility, firm performance, firm size, and operating cash flow to suit our panel data design. The model as presented in their study is shown below:

DA = $\alpha + \beta_0 + \beta_1 BIND + \beta_2 DUAL + \beta_3 BS + \beta_4 AC + \beta_5 BM + \beta_6 OC + \beta_7 BSR + \beta_8 DS$
      $+ \beta_9 ROA + \beta_{10} LEV + \varepsilon_i$

Where;

      DA   = Discretionary accruals
      BIND = Board independence
      DUAL = CEO duality
      BS   = Board size
      AC   = Audit committee
      BM   = Frequency of board meetings
      OC   = Ownership concentration
      BSR   = Board sex ratio
      DS   = Directors shareholders
      ROA   = Return on assets
      LEV   = Leverage
      $\beta_0 ... \beta_{10}$ = Coefficients
      ε_i = Error term over cross section and time
      Consequently, our model is shown thus:
      $FRQ_{pre} = \beta_{0+} \beta_1 DIND_{pre} + \beta_2 BSIZE_{pre} + \beta_3 BSR_{pre} + \beta_4 ERV_{pre} + \beta_5 CFO_{pre} + \beta_6 FSIZE_{pre}$
      $+ \beta_7 LEV_{pre} + \beta_8 FPERF_{pre} + \mu$ -   -   -   -   -   - (2)

      $FRQ_{pst} = \beta_{0+} \beta_1 DIND_{pst} + \beta_2 BSIZE_{pst} + \beta_3 BSR_{pst} + \beta_4 ERV_{pst} + \beta_5 CFO_{pst} + \beta_6 FSIZE_{pst}$

      $+ \beta_7 LEV_{pst} + \beta_8 FPERF_{pst} + \mu$ -   -   -   -   -   - (3)

Where;

Pre = Pre IFRS regime
Pst = Post IFRS regime
FRQ = Financial reporting quality (discretionary accruals)
DIND = Director's independence
BSIZE = Board size
BSR = Board sex ratio (gender diversity)
ERV = Equity return volatility
CFO = Operating cash flow
FSIZE = Firm size
LEV = Leverage
FPERF = Firm performance
$\beta_0 ..... \beta_8$ = Coefficients
μ = Error term over cross section and time

OPERATIONALIZATION OF VARIABLES

S/N	Variables	Definition	Type of Variable	Measurement	Used by	Apriori Sign.
1.	FRQ	Financial reporting quality	Dependent	Discretionary accruals.	Jones (1991)	N/A
2.	DIND	Directors' independence	Independent	Percentage of independent non-executive directors from total number of directors.	Gulzar & Wang (2011).	+
3.	BSIZE	Board size	Independent	Total number of board members.	Beest, Braam & Boelems (2009).	+
4.	BSR	Board sex ratio	Independent	Proportion of female board of directors to total board of directors.	Salehi, Bighi & Najari (2012).	−
5.	LEV	Leverage	Independent	Total liabilities divided by total assets.	Waweru & Riro (2013)	+
6.	ERV	Equity Return Volatility	Control	Standard deviation of returns on equity.	Rubin &Segal (2011).	−
7.	FPERF	Firm performance	Independent	Ratio between earnings before interest, taxes and extra ordinary income and total assets.	Salehi et al. (2012).	+
8.	CFO	Operating cash flow	Control	Operating cashflow over total assets.	Waweru et al. (2011).	−
9.	FSIZE	Firm size	Independent	Natural logarithm of total assets.	Ahmed (2012).	+

Source: Authors (2016).

RESULTS AND DISCUSSION

This section contains the presentation, analysis and interpretation of the data collected for this research work. Consequently, it entails the application of both mathematical and statistical techniques to provide the basis for the testing of the research hypothesis. Hence, it is a vital part of any research work, since it forms the basis for recommendation and conclusions at the end of the research. The models specified in the previous chapter are examined empirically. The preliminary analysis of the data is first conducted (descriptive and correlation analysis). Thereafter, the regression analysis is conducted. The results are presented and interpreted below.

PRESENTATION AND ANALYSIS OF DATA
TABLE 1: DESCRIPTIVE STATISTICS

	Mean	Max	Min	Std. Dev.	JB	Prob
DACC	0.000767	1.130532	-1.897	0.267935	1734.943	0.000
DIND	0.490805	1	0	0.209424	17.65197	0.000
BSIZE	9.084071	18	5	2.555519	19.97444	0.000
BSR	0.093155	0.77	0	0.113682	1021.01	0.000
ERV	1.210912	174	0.077	11.52205	473677.1	0.00
CASHFLOW	22325416	2.07E+09	-1E+07	1.57E+08	180813.5	0.00
FSIZE	1.76E+08	1.51E+10	98276	1.37E+09	114061	0.00
LEV	0.555181	1.926	0.071	0.242772	454.4763	0.000
FPERF	0.114573	0.895	-0.441	0.137228	632.9515	0.000

Source: Authors (2016).

Where: DACC= Discretionary accruals

DIND = Directors Independence

BSIZE= Board size

BSR= Board sex ratio (gender diversity)

ERV= Earnings Volatility

CASHFLOW = Cash flow from operations

FSIZE= Firm size

LEV= Leverage

FPERF = Financial Performance

Table 1 shows the descriptive statistics for the variables. As observed, DACC show the following statistics; Mean= 0.000767, STD= 0.2679 which indicates the extent to which discretional accruals for the distribution exhibits considerable clustering around the average, Max= 1.1305 and Min= -1.897. DIND show the following statistics; Mean= 0.490 which suggest that over 49% of the directors are independent. STD= 0.209. BISZE shows the following statistics; Mean= 9.08, STD= 2.555, Max= 18 and Min =5. BSR show the following statistics; Mean= 0.093 which suggest that on the average about 9% of the total board members of companies in the sample are females. STD= 0.113682.00, Max= 0.77 and Min= 0. ERV show the following statistics; Mean= 1.2109, STD = 11.5220, Max= 174 and Min= 0.077. CASHFLOWshow the following statistics; Mean= 22325416, STD= 1.37E+09,Max= 2.07E+09 and Min= -1.E+07.

FSIZE show the following statistics; Mean= 1.76E+08, STD= 1.37E+09, Max= 1.51E+10 and Min= 98276. LEV show the following statistics; Mean= 0.555, STD = 0.2428, Max= 1.926 and Min= 0.071. FPERF shows the following statistics; Mean= 0.114, STD= 0.1372, Max= 0.895 and Min= -0.441.

Table 2 Pearson Correlation Result

	DACC	DIND	BSIZE	BSR	ERV	CASHFLOW	FSIZE	LEV	FPERF
DACC	1								
DIND	0.047666	1							
BSIZE	0.05472	-0.19308	1						
BSR	0.03552	-0.13329	0.057896	1					
ERV	0.011395	0.003978	-0.02879	0.019128	1				
CASHFLOW	0.108806	-0.00656	0.148751	-0.01909	-0.00972	1			
FSIZE	0.108745	-0.01055	0.143317	-0.01377	-0.00812	0.956939	1		
LEV	-0.09783	-0.06921	-0.09483	-0.05837	0.072893	-0.05735	-0.05054	1	
FPERF	0.105302	0.131989	0.155533	-0.0317	-0.05344	0.040117	0.015012	-0.14996	1

Source: Researchers Compilation (2014)

From table 2 above, the correlation coefficients of the variables are examined. However of particular interest to the study are the correlation between; Discretionary accruals proxy for financial reporting quality and the explanatory variables. As observed, DACC is positively correlated with DIND (r=0.0476), BSIZE (r= 0.0547), BSR (r=0.0355), ERV (r=0.0113), CASHFLOW (r=0.1088), FSIZE (r=0.01087) and FPERF(r=0.1053). DACC is negatively correlated with LEV (r=0.1053). The positive correlations indicate that increases in these variables will be associated with increases in discretionary accruals and vice-versa.

The Inter-correlations between the explanatory variables do not seem to indicate the presence of multi-collinearity threats for most of the variables. For example, we find that DIND is negatively correlated with BSIZE (r=-0.193) and BSR(r=-0.133). LEV is positively correlated with ERV(r=0.0729), negatively with DIND (r=-0.069) and with BSR (r=-0.0584). However, for CASHFLOW we observe a strong positive correlation with FSIZE (r=0.9569), which suggest that both variables are highly collinear and portends multi-collinearity conducted.

The variance inflation test is performed to provide robust evidence of the collinear status of the variables. Other test to be conducted includes; the Jacque-Bera test for normality, Autoregressive conditional heteroskedasticity test for Heteroskedasticity, the Breusch-Godfrey

Test for Serial Correlation and the Ramsey reset test for model specification. The results are presented below;

TABLE 3: REGRESSION ASSUMPTIONS TEST

Normality test		
Variable	Jacque-Bera statistics	Prob
DACC	1734.943	0.000
DIND	17.65197	0.00
BSIZE	19.97444	0.00
BSR	1021.01	0.00
ERV	473677.1	0.00
CASHFLOW	180813.5	0.00
FSIZE	114061	0.00
LEV	454.4763	0.00
FPERF	632.9515	0.00
Multi-collinearity test		
Variable	Coefficient Variance	Centered VIF
DIND	0.008222	1.090805
BSIZE	5.42E-05	1.107970
BSR	0.025598	1.025991
ERV	2.40E-06	1.008199
CASHFLOW	1.55E-19	11.97810
FSIZE	2.01E-21	11.94949
LEV	0.005632	1.044681
FPERF	0.018347	1.080487
Heteroskedasticity Test: ARCH		
F-statistic = 2.666	Prob. F(3,207)	0.488
Obs*R-squared = 4.36	Prob. Chi-Square(3)	0.492
Breusch-Godfrey Serial Correlation LM Test:		
F-statistic = 12.342	Prob. F(2,212)	0.36
Obs*R-squared=13.257	Prob. Chi-Square(2)	0.38
Ramsey Reset Test		
t- statistics=1.577	Df= 213	0.2415
f-statistics =2.489	Prob. F(1,213)	0.2415

Source: Source: Authors (2016).

Tests of normality show the results of the Jacque-Bera statistics. This assesses the normality of the distribution of scores. The variance inflation factor (VIF) shows how much of the variance of a coefficient estimate of a regressor has been inflated due to collinearity with the other regressors. Basically, VIFs above 10 are seen as a cause of concern (Landau and Everitt, 2003). As observed, cash flow and firm size appear to have VIF values above 10 and hence gives serious indication of multi-collinearity. As recommended by Landau and Everitt, (2003), we drop both variables from the model. The ARCH test for heteroskedasticity was performed on the residuals as a precaution. The results showed probabilities in excess of 0.05,

Which leads us to reject the presence of heteroskedasticity in the residuals. The Lagrange Multiplier (LM) test for higher order autocorrelation reveals that the hypotheses of zero autocorrelation in the residuals were not rejected. This was because the probabilities (Prob. F, Prob. Chi-Square) were greater than 0.05.The LM test did not therefore reveal serial correlation problems for the model. The performance of the Ramsey RESET test showed high probability values that were greater than 0.05, meaning that there was no significant evidence of miss-specification.

TABLE 4: REGRESSION RESULT

Dependent variable	Full sample	Pre-IFRS	Post-IFRS
C	-0.0800 {0.108} (0.000)	-0.2173 {0.176} (0.000)	-0.0459 {0.158} (0.000)
DIND	-0.119* {0.092} (0.000)	-0.147* {0.127} (0.033)	-0.0431* {0.101} (0.000)
BSIZE	-0.004* {0.008} (0.000)	-0.0002* {0.012} (0.000)	-0.0139* {0.011} (0.000)
BSR	0.0582 {0.169} (0.653)	0.4710 {0.318} (0.121)	0.0171 {0.129} (0.810)
ERV	0.0003* {0.541} (0.031)	0.0078* {0.101} (0.029)	0.254* {0.103} (0.040)
LEV	-0.0583 {0.0767} (0.675)	0.1210 {0.119} (0.044)	0.0291 {0.084} (0.624)
FPERF	0.1518* {0.136} (0.016)	0.3909* {0.217} (0.035)	0.454* {0.222} (0.019)
AR(1)	0.313 {0.065} (0.2660)	0.321 {0.094} (0.800)	0.832 {0.084} (0.653)
R^2	0.651	0.57	0.621
ADJ R^2	0.584	0.432	0.521
F-Stat	4.276	3.135	16.420
P(f-stat)	0.00	0.004	0.002
D.W	1.9	1.98	2.03

Source: Authors (2016).

Table 4 shows the regression results for the study. As observed the estimation is conducted on a pre-IFRS, post-IFRS and full sample basis. The full sample estimation shows a value of 0.651 which indicates that the model explains about 65.1% of the systematic variations in financial reporting quality with an adjusted value of 0.584 The F-stat is 4.276 (p-value = 0.00) which is significant at 5% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. It is also indicative of the joint statistical significance of the model.

The AR (1) estimates is also not significant at 5% suggesting the absence of first order serial correlation in the model. The D. W statistics of 1.9 also substantiates this. Commenting on the performance of the structural coefficients, we observe that DIND is negative (-0.119) and significant at 5% (p=0.00). BSIZE is negative (-0.004) and significant at 5% (p=0.00).

However, BSR appeared positive (0.0582) but not significant at 5% (p=0.653). In addition, we observe that we observe that ERV is negative (-0.003) and significant at 5% (p=0.031). LEV is negative (-0.058) though not significant at 5% (p=0.675). However, FPERF appeared negative (-0.1518) and significant at 5% (p=0.016). The R^2 for the Sub-sample estimation for pre-IFRS shows an R^2 of 0.57% which indicates in the pre-IFRS period, the model explains 57% of systematic variations in financial reporting quality with an adjusted value of 43.2%.

The F-stat is 3.135 with p-value =0.00 suggesting that the hypothesis of a significant linear relationship between the exogenous variables and financial reporting quality in the pre-IFRS period cannot be rejected. The AR (1) estimates is also not significant at 5% suggesting the absence of first order serial correlation in the model. The D. W statistics of 1.9 also substantiates this. Commenting on the performance of the structural coefficients, we observe that DIND is negative (-0.147) and significant at 5% (p=0.00). BSIZE is negative (-0.002) and significant at 5% (p=0.00). However, BSR appeared positive (0.4710) but not significant at 5% (p=0.121). In addition, we observe that we observe that ERV is negative (-0.0078) and significant at 5% (p=0.029). LEV is negative (-0.1210) though not significant at 5% (p=0.244). However, FPERF appeared negative (-0.3903) and significant at 5% (p=0.035).

The R^2 for the Sub-sample estimation for post-IFRS shows an R^2 of 0.621 % which indicates in the post-IFRS period, the model explains 62.1% of systematic variations in financial reporting quality with an adjusted value of 0.52%. The F-stat is 6.420 with p-value =0.00 suggesting that the hypothesis of a significant linear relationship between the exogenous variables and financial reporting quality in the post-IFRS period cannot be rejected. The AR (1) estimates is also not significant at 5% suggesting the absence of first order serial correlation in the model and the D. W statistics of 2.03 also substantiates this.

Commenting on the performance of the structural coefficients, we observe that DIND is negative (-0.0431) and significant at 5% (p=0.00). BSIZE is negative (-0.0139) and significant at 5% (p=0.00). However, BSR appeared positive (0.0171) but not significant at 5% (p=0.810). In addition, we observe that we observe that ERV is negative (-0.254) and significant at 5% (p=0.040). LEV is positive (-0.029) though not significant at 5% (p=0.624). However, FPERF appeared negative (-0.454) and significant at 5% (p=0.019).

DISCUSSION OF RESULTS

DIRECTOR INDEPENDENCE AND FINANCIAL REPORTING QUALITY

The regression results in table 4 show parameters of the variables across the three decompositions; full sample, Pre-IFRS and Post-IFRS. For full sample DIND is negative (-0.119) and significant at 5% (p=0.00), for pre-IFRS, it is negative (-0.147) and significant at 5% (p=0.00) while for post-IFRS period, it is negative (-0.0431) and significant at 5% (p=0.00). The result suggests that DIND appears to have a negative effect on discretionary accruals and this is observed for both the pre and post IFRS regime.

An Independent board is one of the effective mechanisms in monitoring the accounting process. Consequently, we reject the null hypothesis (H1) that directors' independence has no significant positive effect on financial reporting quality in the pre and post IFRS regime in Nigeria. The finding is in tandem with previous studies (Salel, Mohd and Rahmat2005) which provide evidence that non-executive and external directors are effective mechanisms in monitoring financial reporting quality.

They observed that the non-executive and independent directors successfully limit big bath and hence the higher the proportion of non-executive and independent directors to total directors, the higher (less negative) the discretionary accruals. The finding however differs from that of Agrawal and Chadha, (2005) and Park & Shin, (2004).

BOARD SIZE AND FINANCIAL REPORTING QUALITY

For full sample estimation, BSIZE is negative (-0.004) and significant at 5% (p=0.00), for pre-IFRS it is negative (-0.002) and significant at 5% (p=0.00) and for Post-IFRS regime it is negative (-0.0139) and significant at 5% (p=0.00). The result suggests that BSIZE appears to have a negative effect on discretionary accruals and this is observed for both the pre and post IFRS regime. This implies that increases in board size will mitigate accruals-based financial reporting manipulation and this is consistent for both pre and post IFRS regime.

Consequently, we reject the null hypothesis (H2) that board size has no significant positive impact on financial reporting quality in the pre and post IFRS regime in Nigeria. One of the major responsibilities of the board of directors is to ensure that shareholders and other stakeholders are provided with high-quality disclosures on the financial and operating results of the entity that the board of directors have been entrusted with governing (UNCTD, 2006).

The finding is in tandem with Waweru & Riro, (2013), John and Huse and Solberg (2006) Kent & Stewart 2008, Doyle (2010), and Samaha, Dahwy, Abdel-Meguid and Abdallah (2012). However, the finding is in contrast with Cheng and Courtenay (2006).

BOARD SEX RATIO AND FINANCIAL REPORTING QUALITY

For full sample estimation, BSR appeared positive (0.0582) but not significant at 5% (p=0.653), for pre-IFRS, it appeared positive (0.4710) but not significant at 5% (p=0.121) and for post-IFRS, it appeared positive (0.0171) but not significant at 5% (p=0.810). The result suggests that BSR appears not to have any significant negative effect on discretionary accruals and this is observed for both the pre and post IFRS regimes.

The result does not seem to support the expectation that board sex ratio will substantially mitigate accruals-based financial reporting manipulation and this is consistent for both pre and post IFRS regime. Consequently, we accept the null hypothesis (H3) that board sex ratio has no significant positive impact on financial reporting quality in the pre and post IFRS regime in Nigeria. The finding is in tandem with Carver (2002), Mattis (2000), Zelechowski and Billimoria (2004), Carter et al.(2003) and Campbell and Minguez-Vera (2008). However, the finding is at variance with Watso (2002), Rose (2007), and Emilia and Sami (2010).

ERV AND FINANCIAL REPORTING QUALITY

For full sample estimation, ERV is positive (0.003) and significant at 5% (p=0.031), for pre-IFRS, it maintains its sign (0.0078) and statistical significance and (p=0.029). In the post-IFRS period, ERV is also positive (0.254) and significant at 5% (p=0.040). The result suggests that ERV has a significant positive effect on discretionary accruals and this is observed for both the pre and post IFRS regimes. The result seems to support the expectation that firms with low accrual quality have more accruals that are unrelated to cash flow realizations, and so has more noise or volatility in their earnings and consequently predispose managers to adjust it through earnings management practices. Thus, equity returns volatility will substantially motivate managers to smooth returns as the market reacts negatively to returns unpredictability and volatility. Consequently, we reject the null hypothesis (H4) that ERV has no significant impact on financial reporting quality in the pre and post IFRS regime in Nigeria. The finding is in tandem with Biddle et al., (2009), and Rajgopal and Venkatachalam (2011). However, the finding is at variance with Mahmood, Froogh and Ahmed (2012), and McMillian and Speight (2010).

LEVERAGE AND FINANCIAL REPORTING QUALITY

For full sample estimation, LEV is negative (-0.058) though not significant at 5% (p=0.675), for pre-IFRS regime, it is negative (-0.1210) though not also significant at 5% (p=0.244). In the post-IFRS, it is positive (0.0291) and not also significant at 5% (p=0.624). The result suggests that Leverage has an insignificant effect on discretionary accruals and this is observed for both the pre and post IFRS regimes. The result seems not to support the expectation that leverage levels will substantially influence the level of financial reporting quality in both the pre and post IFRS regimes. Consequently, we accept the null hypothesis (H5) that leverage has no significant impact on financial reporting quality in the pre and post IFRS regime in Nigeria. Our finding is in tandem with Aksu and Kosedag, (2006) Huafang & Jianguo, (2007), Hossain and Hammami, (2009), Watson et al., (2002), Alsaeed, (2006) Abdullah & Ku Ismail (2008). However, the finding is at variance with Uyar and Kilic, (2012), Daske et al. (2008), Armstrong et al. (2010) and Bekiris and Duokakis (2011).

FIRM FINANCIAL PERFORMANCE AND FINANCIAL REPORTING QUALITY

For full sample estimation, FPERF appeared negative (-0.1518) and significant at 5% (p=0.016), for pre-IFRS period, it appeared negative (-0.3903) and significant at 5% (p=0.035) and for the post-IFRS period, it again appeared negative (-0.454) and significant at 5% (p=0.019). The result suggests that financial performance has a significant negative effect on discretionary accruals and this is observed for both the pre and post IFRS regimes. The result

Seems to support the expectation that financial performance levels will substantially influence the level of financial reporting quality in both the pre and post IFRS regimes. According to stakeholder theory, economic performance of a firm affects management's decision to either engage or not to engage in creative accounting practices which will indicate the extent of financial reporting quality. When companies are not performing well, economic demands and the anticipated benefits will determine the nature of the firm's financial reporting environment (Roberts, 1992). The finding is in tandem with Waweru et al., (2013), Haniffa and Cook (2002), Gul and Leung (2004), and Cheng and Courtenay (2006). However, the study finding is at variance with Hossain and Hammami (2009), Chau and Gray (2010).

SUMMARY AND CONCLUSION

Financial reporting is a very fundamental corporate responsibility and a core element of the corporate system. This is because, the financial reporting serves as the major medium of communication between companies and stakeholders by reducing the level of information asymmetry between the directors, who have access to management information and other interested parties who are external to the company. Accrual based financial reporting alteration has persisted as a challenge to financial reporting quality and has been employed extensively in studies on financial reporting quality. Quite unanimously, theorists point out possibility that discretionary accruals may satisfy either the performance measure hypothesis or the opportunistic accrual management hypothesis. While the former argues that accruals lead future cash flows, and managers use the discretionary accruals to enable outsiders to make more reliable forecast of future performance, the latter claims that managers use accruals to exploit information asymmetry, manipulating current year income in order to achieve various benefits to themselves or their firms. But with the advent of IFRS, financial reporting in Nigeria has been undergoing a remarkable change. Although the conceptual basis and many of the general principles are quite similar under IFRS and Nigerian GAAP, the application of IFRS may be nevertheless significantly different and the adoption of IFRS may bring up many changes, in terms of financial reporting.

Consequently, the differences between the two regimes may impact on the leeway provided by accounting standards to aid financial manipulation. Therefore this study specifies a multiple regression model that puts financial reporting quality as a function of theoretically proven explanatory factors. We went further to decompose our data from the sample of companies into pre and post IFRS regimes to examine the sensitivity of the selected factors to financial reporting periods while still estimating the full sample data.

The findings of the study show that that DIND appears to have a negative effect on discretionary accruals and this is observed for both the pre and post IFRS regime. BSIZE appears to have a negative effect on discretionary accruals and this is observed for both the pre and post IFRS regime. BSR appears not to have any significant negative effect on discretionary accruals and this is observed for both the pre and post IFRS regimes. ERV is negative (-0.254) and significant at 5% (p=0.040). The result suggests that ERV has a significant positive effect on discretionary accruals and this is observed for both the pre and post IFRS regimes. The result

Suggests that Leverage has an insignificant negative effect on discretionary accruals and this is observed for both the pre and post IFRS regimes. Financial performance has a significant negative effect on discretionary accruals and this is observed for both the pre and post IFRS regimes.

In the light of the research work, the following policy recommendations are suggested.

That Board size had a negative significant determinant of financial reporting quality. Thus the study recommends that there is need for companies to increase their board size as this may inject some level of dynamics into the board level interactions. However, the opinion in the literature as to what an optimal board size should be is far from conclusive. Just as predicted by fundamental economic theories of utility, it is likely that there is a point where the incremental effect of increasing the board size becomes negative and successive additions to the size will reduce the total effectiveness of the board. Consequently companies should focus on determining what optimal board to adopt.

There is a need for companies to ensure that they include a sufficient number of independent directors as part of the Board. The study finding provides evidence that the independent non- executive directors do mitigate the opportunistically discretionary behaviours through effective monitoring. This may be expected because independent non-executive directors usually have no personal financial interest, no potential conflict of interests arising from day-to-day involvement in running the business, they thus can exercise an impartial judgment over the fairness of executives' self-dealings. Regulators should enforce more on the financial statements disclosure among companies quoted on the Nigerian Stock Exchange as to ensure a high quality of financial statement because enforcement of the financial reporting requirement for companies can also be vital in determining the level of transparency. It is recommended that top management of Nigerian companies should be involved in providing quality financial statements not only putting emphasis on companies' performance in terms of turnover but also in terms of financial reporting. It is also recommended that all those personnel involved in financial reporting should be intensively trained and be certified accountants, also the capacity to prepare and present financial statements confirming to accounting standards need to be exploited other than being kept idle by companies in Nigeria. It is also recommended that investors should rely more on the financial reports of firms with lower debt to equity ratios.

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