

Board of Directors' Education and Audit Quality in Nigeria

***Ishaq Ahmed Mohammed and Abdullahi Bello**

School of Business Education,
Federal College of Education (Technical), Ashaka Road,
P.M.B., 60 Gombe, Gombe State. Nigeria.
*Email: isyakubolari@gmail.com

Abstract

This paper seeks to empirically investigate the board of director's education and its impact on the firm's financial reporting quality of listed financial institutions in Nigeria. The data used was from 2012-2014. A static panel data analysis of the sampled entities was carried out employing a fixed effect regressions model to test the hypothesis of the study. The finding reveals that board independence, audit committee diligent and audit fees have a positive and significant relationship between financial reporting qualities of the listed entities. The study also indicates that the board of director's educational background though not significant but can potentially improve the quality of the financial report. The study recommends the establishment of effective laws that would enhance financial reporting quality and increase better stock performance, restore investors' confidence and attract prospective investors, thereby yielding more dividend for equity holders.

Keywords: Board, Director, Education, Quality, Reporting

Introduction

Investors and users of financial information across the globe rely on the content of financial report available to them through the annual report. The report, therefore, is expected to be of high quality and acceptable to stakeholders for an informed decision (Kibya, Che-Ahmad & Amran, 2016). Past research document that quality financial report increases the efficiency of investment drive (Lambert, Leuz & Verrecchia, 2007). In the wake of the proliferation of corporate scandals, fierce competition, risks, and financial crises characterized by the 21st century business environment, as witnessed in the recent past. Firms in every industry need a board of directors with requisite knowledge who can guide their firms

from business uncertainties and shocks towards a stable, sustainable and better future (Abdullah, 2015). Board of directors with an adequate understanding of financial statement and accounting standards such as Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) will enhance the quality of firms financial reporting (Burack Gunner, Malmendier & Tate, 2008). The Early seminal work of Berle and Means (1932) reports that business entities desire to have capable managers due to the separation of control between the shareholders and the management. Firms need to hire capable board members with certain levels of observable and unobservable capabilities to manage such highly-skilled jobs and manage

effectively the resource entrusted to them. A prior study by Bhagat *et al.* (2010) argues that unobservable characteristics are difficult and bias to comprehend hence, visible and balanced measures such as director's educational achievements may be considered in engaging boardroom membership quality.

Gottesman and Morey (2006) found the level of educational achievement to be a good proxy for high financial reporting quality and firm performance, where more intellectual board members are likely to be better than their peers. However, it is worthy to note that higher monitoring and control skills are not always attainable with a high level of educational achievements. Unobservable characteristics, such as leadership style and business acumen, may also play an important role. Practically, some of the best and highest performing firms are being managed and controlled by individuals who have no or have a deficient level of formal education. Hence, it is considered imperative to study whether the educational qualifications of the board members influences financial reporting quality that leads to higher firm performance. Unfortunately, such empirical studies are found to be comparatively scarce in the accounting literature.

Consequently, in the empirical accounting literature, researchers have attempted to examine whether the educational backgrounds of the CEO as a member of the board of directors influences the board's motivation and control behaviour. Studies suggest that directors in boardrooms with higher educational qualifications are better able

to process information and accept significant changes brought about during board deliberations (Wiersema & Bantel 1992). Studies found that both outside directors and CEOs with educational attainment in a technical field are likely to allocate more resources for the funding of R&D activities (Finkelstein & Hambrick, 1997; Barker & Mueller, 2002). Similarly, a chief financial officers (CFOs) with a master degree in Business Administration (MBA) may likely follow the advice of academicians to employ present value techniques in evaluating new projects for submission to the board (Graham & Harvey, 2002).

However, it is essential to note that empirical evidence focusing on the relationship between board educational attainment and firm financial reporting quality leading to performance is relatively scarce in the accounting literature even in the developed capital markets. The few existing studies on the subject are mainly in the USA such as those of Bhagat *et al.* (2010), Darmadi (2013), Gottesman and Morey (2006) and Jalbert *et al.* (2002). These studies provide weak evidence that educational qualification of board members associated with superior financial reporting quality which leads to firm performance. Hence, in the context of the USA, Bhagat *et al.* (2010) conclude that educational attainment may not be a good proxy for boardroom capability.

The main objective of this study is to examine the relationship between the educational qualifications of board members, and financial reporting quality leading to the performance of Nigerian listed financial institutions. The study aims to contribute to the accounting

literature in the following ways. First, this study extends the existing literature by examining the issue of board member's qualification in the financial sector of a developing capital market-Nigeria, which is expected to provide a different outcome from that in the financial institutions of the developed countries. Secondly, in contrast to prior studies which measure the educational background of both the board and the CEOs, the present study addresses only the educational backgrounds of the board members in a financial setting and a developing economy. Third, unlike other studies that centred on firm performance (Bhagat *et al.*, 2010; Darmadi, 2013), this study expects to answer the question of whether academic degrees obtained by board members contribute in enhancing financial reporting quality.

This study on developing economy will be of interest to the academic literature on corporate governance because Nigeria is the largest economy in West Africa and the most populated Black Country in the world. The country is an emerging capital market economy with potentials for foreign and domestic investments. Contrary to findings in prior emerging market studies whose firms are most family-controlled (e.g., Malaysia and Indonesia). Nigeria is open to both foreign and local investments having weak investor protection rights, weak information disclosure requirements, and less-developed capital markets for corporate control (La-Porta *et al.*, 2000; Sanusi, 2012).

Research on the demographic characteristics of the board director's contribution to explaining corporate financial reporting quality is still at an

infant stage within the context of developing the economy. Furthermore, Nigeria is of interest because it adopted a new corporate governance system, where firms are encouraged to establish various board committees in additions to the audit committee which is a statutory committee mandated by the Companies and Allied Matters Act (CAMA) 1990. Again, Nigeria is of interest because it operates a unitary corporate board system where corporations have both independent/non-executive directors and executive directors on boards (CAMA, 1990). Members of the board of directors are appointed or elected by shareholders. The board of directors conducts both monitoring and advising roles on behalf of shareholders to management, especially regarding quality financial reporting functions. The board is led by the chairman who works toward achieving the overall goals of the firm (SEC, 2011).

The World Bank report that lack of suitable corporate governance structures is the leading cause of Nigeria's economic and financial crisis inspection. The report further revealed that the Nigerian accounting standards lack adequate disclosure requirements hence led to poor financial reporting quality and earnings management (WB, 2011; ROSC, 2011). Consequent upon the 2011 inspection report, various attempts have been made to promote good corporate governance in the country. The different regulatory reform put in place by the Central Bank of Nigeria (CBN), the Nigerian Stock Exchange (NSE) The National Insurance Commission (NAICOM) and the Nigerian Securities and Exchange Commission (SEC) attests to that. In 2011, the Financial Reporting

Council of Nigeria (FRCN) Act which is vested with powers regulation and enforcement on all registered companies in Nigeria also came into force. Finally, the International Financial Reporting Standards (IFRS) was fully adopted and came into full use with effect from January 1st, 2012 (Zango *et al.*, 2015). These regulations have provided general guidelines for the composition, capability, integrity, and responsibility of the board of directors. Additionally, all the regulations have recommended the nomination of suitable candidates to serve in the boardrooms.

This paper is structured in the following manner; Section 2 reviews previous work in the literature and develops hypotheses to be tested in the regression analyses. Section 3 is the research methodology of this study. The Dependent, control method the research model of the study is described in Section 4. The empirical results and discussions are presented in Section 5. Finally, Section 6 concludes and suggest directions for further research.

Literature Review and Hypothesis Development

According to the upper-echelon theorist executive outcomes such as related to effectiveness and strategic plans are determined mainly by organizational rules and environmental choices in the form of educational attainment, age, tenure, and sex (Hambrick & Mason, 1984). Board of directors is hired mainly because of their observable characteristics in areas such as their educational backgrounds and work experiences and unobservable traits of leadership ability and or entrepreneurial skills (Bhagat *et*

al., 2010). Prior studies contend that unobservable characteristics may be difficult or even impossible to measure accurately. Hence, scholars in various empirical studies use the observable characteristics to measure cognitive orientation which influences the motivation and control process of the board members (Barro & Lee, 2013; Darmadi, 2013). In providing support for the upper-echelon theory, Hitt and Tyler (1991) show that the type of education (major area of specialization) of the board of directors affects the firm's strategic decision models. In a study by Bantel and Jacksons (1989), the finding suggests that the higher the educational achievement of an individual, the more proactive he/she is in developing sound strategic plans. Thus, a highly educated board is most likely to undertake significant changes in corporate strategy than boards without such educated members.

Boardmember's Educational Background (BEB)

There is little research focusing on the influence of the boardroom members' educational background relating to financial reporting quality of the firm. To the best of our knowledge, such studies in the context of countries outside the US are still absent (Jalbert *et al.* 2002). Previous studies measure educational background through various criteria. For instance, Darmadi (2013) employs four dimensions to measure the educational background of Indonesian board of directors and CEO in a study he conducted in 2007. The scholar's measurements include postgraduate degrees, degrees obtained from prestigious domestic universities, degrees

obtained from developed countries, and degrees obtained in financial disciplines. Other studies employ different criteria of measurement different from the demographic environment. For example, Bhagat *et al.*, (2010) divide educational attainment into two a) “postgraduate degrees or higher” and b) undergraduate degrees or lower. For this study, however, educational backgrounds of board members in Nigeria are measured in two categories. These are: 1) board members with first degrees, it's equivalent or higher degrees from a recognized university in Nigeria or abroad in the social or management related field of study; 2) those qualifying lower than a first degree from any tertiary institutions at home or from abroad. The first hypothesis states as follows:

H₀₁: First or higher degrees in social and management sciences held by board members is positively associated with financial reporting quality

Boardmembers Accounting/Financial Expertise (BEX)

Accounting or financial expertise of board members is very beneficial in the production of high-quality financial reports (Jeanjean & Stolowy, 2009). Lipton and Herzberg (2006) argue in support of the role of accounting/financial expertise in the boardroom being crucial for monitoring and controlling managers in the production of high-quality financial statements. Bhagat *et al.* (2010) find that board members with higher degrees perform significantly better than those without higher degrees. Christy *et al.* (2010) illustrate that the proportion of board members with accounting/financial expertise has a negative relationship with

market risk of equity in the Australian capital market. In the case of Nigerian financial institutions, this study predicts that the presence of accounting/financial expertise in boardrooms provides members with the requisite financial skills that will help to accomplish their assigned responsibilities to shareholders regarding financial reporting quality. The current study uses a percentage number of directors with accounting/financial background on board to measure expertise. The prediction of accounting/financial expertise leads to the formulation of the following hypothesis:

H₀₂. Accounting/financial expertise of board members is positively associated with financial reporting quality

Board of Directors' Independence (BIN)

Researchers agree that boardroom independence is the most effective mechanism for monitoring and control of the companies' activities. According to the resource dependency theory, independent/non-executive directors in boardrooms use their knowledge and experience in vetting financial reports prepared by the management (Fama & Jensen, 1983). Haniffa and Cooke (2005) found that boardroom independence improves the financial reporting quality of firms. Studies posit that independent and diligent boardroom members aimed for high-quality information in the annual report as incentive their appointment into the boardroom (Fama & Jensen, 1983; Gilson, 1990). Other studies also found that firms with a high number of independent directors ensure more transparent and quality financial report (Armstrong, Core & Guay, 2014;

Goodwin-Stewart & Kent, 2006). The present study uses the percentage number of independent/non-executive directors to measure boardroom independence. Based on agency theory and findings in prior studies. Hence, the study hypothesizes that:

H₀₃: Boardroom independence is positively associated with financial reporting quality

Audit Committee Diligence

The audit committee is a vital ingredient that plays a crucial role in monitoring, oversee the preparation of quality finance report and provide proper accountability (Carcello & Neal, 2003). Audit committee further serves as an intermediary in the process of financial reporting between key players such management, the board of directors, internal and external auditors through oversight functions of reviewing the scope of audit work, nominating external auditors as well as carrying out internal control checks (Sultana *et al.*, 2015). Statutorily, the committee is required to properly monitor and advise management on the preparation and timely release of the financial report to shareholders and other stakeholders (Blankley *et al.*, 2014). The quality of the audit committee is justified by its characteristics such as independence, financial expertise, diligence, and size. This present study focuses on audit committee diligence. Audit committee diligence enhances the process and monitoring of corporate financial reporting effectively (Karamanou & Vefas, 2005). Sufficient numbers of meetings enable the committee members in complex firms such as banks and insurance to discover

irregularities and fraud (Agrawal & Chadha, 2005). Consequently, Financial Reporting Council FRC (2008) states that the audit committee has adequate time to discuss all issues under consideration as required fully. Also, SEC (2011) and FRCN (2016) recommend a minimum of 1 meeting every quarter and a maximum of 4 meetings annually in Nigeria.

The findings from prior studies indicate that audit committee diligent led to committee's focused on corporate activities of the firm (see for example Vafeas, 2005; Abbott *et al.*, 2003; Goodwin & Kent; 2006; Hoitash & Hoitash, 2009. Moreover, these researchers have found the empirical evidence supporting a higher frequency of audit committee meetings about non-audit fee ratio, audit fee, and earnings quality.

However, studies such as Bedard *et al.* (2004), Abbott *et al.*, (2003), and found no significant relationship between meetings frequency and earnings reporting quality measures. The recent meta-analysis study's result of Lin and Hwang (2010) supports the findings as mentioned above by indicating a significant negative association between the number of audit committee meetings and earnings management. Furthermore, Zhang, Zhou, and Zhou (2008) report a positive correlation between meeting frequency and financial reporting quality. However, empirical evidence on the impact of audit committee meeting frequency on financial reporting quality document mixed results. Lin *et al.* (2006) fail to find any association between the frequency of audit committee meetings and earnings management. In the same manner, Moses (2016) found an

insignificant relationship between meetings frequency and earnings management. The study will measure the audit committee diligent by the number of meetings held. Given the above argument, the study hypothesizes that:

H₀₄: There is a significant relationship between audit committee diligence and financial reporting quality

Audit Fees

The primarily driven force of agency theory is on the ownership separation from management control basis resulting in a behaviour inconsistent with the principal desire (Jensen & Meckling, 1983). Hence, the need for independent external examination on the reliability of the agent stewardship from a third party (Watt & Zimmerman, 1983). Therefore, an independent review of the financial statement by a third party may raise accountability, restore trust and confidence in the financial reporting process (Fag & Wong, 2005). However, the contractual bond between the firm and the auditor brings into sharp focus several issues surrounding the audit fees such as the need to evaluate audit market competitiveness, and auditors' independence prompts empirical investigation into audit fees (Hay, Knechel & Wong, 2006).

Previous studies on audit fees have been afloat using data from distinct judicial context and regulations. However, evidence from Anglo-American countries has dominated the research horizon. For example, early research from the US (see Simunic, 1980; Palmrose, 1986; Rubin, 1988). UK (Chan, Ezzamel & Gwollian, 1993; Lennox, 1999; Mathew & Peeks, 2003)

and researchers from other countries such as Australia (Carson, Fargher, Simon & Tylor, 2004; Craswell, Francis & Tylor, 1995) have adopted and used Simunic 1980 audit fee model. The audit production model, according to Simunic (1980), is based on several attributes such as client size, client complexity, and client audit risk.

Amid several corporate scandals across the globe resulting in the colossal sum of money. Various studies view audit quality through the Big4 and Non-Big4 proxies (Ream, Rana & Backer, 2011; Main & Dawo, 2013). However, Mohamed & Habib (2013) suggest that audit fees determine the quality of the audit process hence, considered audit fees as a good measure. Moreover, the seminal work of Simunic (1980) indicates that the complex business environment and risky nature of the business were vital factors that determine the audit fees visa a visa it is quality. Several studies have found a significant relationship between audit fees and reporting quality (see, for example, Yaacob & Che-Ahmad, 2012; Griffin *et al.*, 2009). Given the various corporate scandals reported in Nigeria (Badawi, 2008) which involved several financial institutions and other firms and the adoption of International Financial Reporting Standards (IFRS), there is, therefore, need and concern for the quality of the audit process. This study will also measure reporting quality using audit fees. Based on the above discussion the study hypothesizes that;

H₀₅: There is a significant relationship between audit fees and financial reporting quality.

Methodology

The sample employed in this study comprises only banks and insurance firms listed on the Nigerian Stock Exchange (NSE) for three years from 2012 to 2014. This period is particularly important for this study because 2012 is the post-World Bank evaluation period of the newly promulgated corporate governance code which took effect on June 2011 and the year in which International Financial Reporting Standards (IFRS) adopted in Nigeria. The annual reports of the sample were used to hand-collect information on the educational qualifications and other corporate governance information of board members required in this study. In all, 48 firms made up of 16 banks and 32 insurance companies with complete data needed for the three years made up the selected sample for this study. This relatively small size of the sample is due to the consolidation exercise embarked upon in the Nigerian financial sector since 2004 that resulted in mergers, acquisition, takeovers and some instances outright liquidation. These exercise help to strengthen the Nigerian financial sector to make it more competitive and capable of attracting foreign direct investments (Sanusi, 2012). Consequently, the study used static panel data regression for the analysis of the data.

Dependent, Control Variables and Research Model

The dependent variable for this study is AUQ which is proxy by Big4 and non-big4 audit firm. The proxy also used in many studies, such as Misirlioglu, Tucker, and Yükseltürk (2013). Omran and Abdelrazik (2013) and Schmidt and Wilkins (2013). Agency theory suggests

that both the auditing firms and their clients stand to benefit from a high-quality audit. The choice of a good external auditor, especially a “Big4” audit firm, can serve to increase a company’s value. For instance, Craswell and Taylor (1992) argued that Big4 charge higher fees, given the opportunity listed enterprises are more likely to choose a “Big4” audit firm to be their auditors. DeAngelo (1981) argue that the choice of a Big4 boost the confidence of shareholders and prospective investors that the information contained in the financial report is qualitative and therefore, more beneficial to all the stakeholders. This study uses Big4 as a dummy variable denoted by “1” and non-Big4 by “0” as a proxy for audit quality. This study further employs two control variables; firm size, which is proxy using the book value of assets commonly found in the literature (Darmadi, 2013). The study also uses profitability (PROF) in measuring financial reporting quality as used in previous studies. Agency theory suggests that a profitable company’s directors motivate management to engage professionals in auditing to produce quality financial statements. In this current study, the net profit divided by year-end owners’ equity is used to compute a company’s profitability.

The research model for this study is as follows:

$$AUQ = \beta_0 + \beta_1 BEB_{it} + \beta_2 BEX_{it} + \beta_3 BIN_{it} + \beta_4 AUCM_{it} + \beta_5 LFEES + \beta_6 PROF_{it} + \beta_7 FSIZE_{it} + \epsilon_{it}$$

Where:

FRQ = Financial reporting quality,
BEB = Board members educational

background, **BEX**= Board members financial expertise, **BIN**=Board independence, **AUCD**=Audit Committee diligent, **LFEES**=Log Audit fees, **PROF**=Profitability, **FSIZE**=Firm size, ϵ =Error term, **it**=Entity over time

Results and Discussion

Table 5.1 Descriptive Statistics

Variable	Min	Max	Mean	Sd	Skewness	Kurtosis
AUQ	0	1	0.5138889	0.501552	-0.055577	1.003089
BIN	0.4737	0.916	0.662616	0.117021	0.4028261	1.267115
BEB	2	19	6	4	1.392738	4.118086
BEX	1	12	3.666667	2.872586	1.036553	2.820845
AUCM	3	7	5.347222	1.098756	-0.8139542	2.438565
LFEES	4.919078	6.17609	5.436898	0.274581	0.7062926	2.68604
PROF	-50.78	97.82	5.120556	14.2416	2.351797	18.11595
LFSIZE	6.348479	9.64537	7.989003	1.092687	0.1726233	1.32116

AUDQ: Audit Quality, BIN: Board Independence, BEB: Board Members education, BEX: Board Expertise, AUCM: Audit Committee Meetings, LFEES: Audit fees, PROF: Profitability, LFSIZE: Firm Size

Table 5.1 depicts the descriptive statistics for the entire sample of 144 observations for banks and insurance that employed for the study. The table shows the mean, minimum, maximum, and standard deviation values. The mean for AUQ is 0.5138889, and standard deviation of 0.501552 and the mean value for board educational background (BEB) is six board members with a standard deviation of 4. The table further shows that the boardroom independence, as represented

by BIN, had a mean value of 0.662616. At the same time, the minimum and maximum independent/non-executive directors served on the board is 0.4737 and 0.916, respectively. Board of directors with financial expertise have a mean of 3.666667 and 2.872586 as standard deviation. The minimum and maximum AUCM of entity 3 and 7, respectively. The minimum and maximum of LFEES stood at 4.9919078 and 6.17609, respectively.

Table 5.2 Correlation Matrix

	AUDQ	BIN	BEB	BEX	AUCD	LFEES	PROF	LFSIZE
AUDQ	1.0000							
BIN	0.1779*	1.0000						
BEB	0.5194*	0.1385	1.0000					
BEX	0.4935*	0.2398*	0.9074*	1.0000				
AUCM	0.2196*	0.1278	0.3325*	0.369*	1.0000			
LFEES	-0.3570*	0.0321	-0.317*	-0.347*	-0.0737	1.0000		
PROF	-0.1438	-1E-04	-0.116	-0.135	-0.0965	0.1362	1.0000	
LFSIZE	0.3898*	0.0815	0.6754*	0.689*	0.3769*	-0.3532*	-0.1561	1.0000

*Note: * p < .05, ** p < .01, and *** p < .001*

The correlation matrix assists in checking whether there is the issue of any multicollinearity among the independent

variables. The standard criteria suggest that the correlation value should be less than 0.7. Hence independent variables

with less than 0.7 would not be a severe multicollinearity issue and cannot affect the validity of the findings. Table 5.2 shows that none of the correlation value exceeds 0.7 except BEX, which show a high correlation of 0.9074. Hence, there was no serious problem of multicollinearity amongst the independent variables

Test for Model Specification

A Hausman specification test conducted to select the appropriate model between fixed and random effect and to determine whether the errors terms (ϵ)

correlate with the regressors. If the probability $>$ chi-square is $<$ 0.05 or is significant, the fixed-effect model becomes appropriate. But where the Hausman test shows a probability greater than 0.05 or is not significant, the random-effects model becomes appropriate. In this present study, the Hausman specification test indicates a significant relationship with Prob. $>$ chi-square = 0.0761 favouring fixed effect. Hence, this study reports the fixed-effect model.

Table 5.3 Static Panel Regression Results

VARIABLES	(1) OLS	(2) RANDOM	(3) FIXED
BIN	0.541** (0.248)	0.541** (0.248)	0.460* (0.256)
BEB	0.0202** (0.00862)	0.0202** (0.00862)	0.0128 (0.00905)
BEX	0.0166 (0.0122)	0.0166 (0.0122)	0.0114 (0.0130)
AUCD	0.111*** (0.0224)	0.111*** (0.0224)	0.125*** (0.0236)
LFEES	0.0833 (0.0794)	0.0833 (0.0794)	0.154* (0.0825)
PROF	2.79e-05 (0.000594)	2.79e-05 (0.000594)	0.000100 (0.000589)
LFSIZE	0.0193 (0.0282)	0.0193 (0.0282)	0.0110 (0.0305)
Constant	-1.850*** (0.656)	-1.850*** (0.656)	-2.036*** (0.679)
R-squared			0.36%
Hausman Prob>chi2			0.0761
Mean VIF			2.79
Heteroskedasticity		Prob > chi2 =	0.2573

Standard errors in parentheses (***) $p < 0.01$, ** $p < 0.05$, * $p < 0.1$)

Table 5.3 shows the relationship between the dependent variable and all the independent variables of the study empirically. The table above revealed that board independence (BIN) is positive and significant at 10%. The result is, therefore, consistent with the findings of

Haniffa & Cooke, 2005; Armstrong, Core & Guay, 2014; Goodwin-Stewart & Kent, 2006) who maintained that a board of adequate outside directors enhances independence that leads to the quality of financial reporting. Furthermore, resource dependency theory document

that the board of directors' independence can positively check the quality of financial report due to their independence. The result also indicates that one-unit change in BIN will bring about an increase in FRQ by 0.46% on the basic assumption that other economic factors remain constant.

Additionally, the result also revealed the audit that committee diligent (AUCD) is significant at 1%, which means that frequent audit committee meetings can make a board audit committee to review the audit process. It will also ensure its quality and timely presentation as reported by (Vafeas, 2005; Abbott *et al.*, 2003; Goodwin & Kent; 2006). In the same vein, an addition of one audit committee diligent (AUCD) will lead to a corresponding increase of AUQ by 0.13%. Finally, audit fees (LFEES) is also positive and have a significant relationship with the dependent variable at 10%. This result is consistent with (Yaacob & Che-Ahmad, 2012; Griffin *et al.*, 2009). It also means that one-unit addition to the audit fees (LFEES) will undoubtedly increase the quality of AUQ by 0.15%. The audit fees play a significant role following some attributes regarding audit processes such as client size, client complexity and the risk associated with it. Hence, an audit firm with technical know-how is those to be engaged to provide quality financial reporting.

The study's R^2 is capable of explaining a 0.36% variability of financial reporting quality in the model. The R^2 seems to be low. However, according to (Frost, 2014), low R^2 does not affect the interpretation of significant variables due to the nature of human behaviour, which

is hard to predict than say physical process. The mean VIF is 2.79, which shows that the model is free from Multicollinearity. In the same vein, the model is free from Heteroskedasticity with $\text{Prob} > \text{Chi-square}$ of 0.2573.

Conclusions

Research focusing on the effect of the board of directors' educational backgrounds on financial reporting quality is rare in the accounting literature. Past studies mostly utilize US data. This present study is among the few in stressing such a critical issue in an emerging economy such as Nigeria. Nigeria provides an exciting business avenue of emerging markets and one of the largest economies in Africa and among the 23 largest emerging economies in the world (IFM, 2017).

The study finds significant evidence on the board of directors' independence, audit committee diligent and audit fees as they relate to firms financial reporting quality in Nigerian banking and insurance sub-sector. The study established that board members with a requisite educational qualification such as first degree and higher degrees obtained from recognized institutions, with financial experts is not a good measure of financial reporting quality.

The findings of the study are based on the Nigerian setting. They have far-reaching implications for national regulators such as CBN and NAICOM and perhaps some similar scenario of other developing economies given the diverse nature of today's business environment characterized by risks, information volatility, and fierce

competition. No doubt, that the adequate board audit committee diligent from members can improve not only corporate disclosure but the quality of such disclosure in the form of a financial report. Thus, the study has important statistical and empirical inference in the use of panel regression to determine relationships.

Although, the results indicate that both random and pooled OLS seem to be same, but the statistical test discerns between the two in favour of the fixed-effect model. The possible reasons for the differences are factors such as corporate philosophy and managerial style of the sampled entities. However, in this study, the result indicates that variations are not distinct from accounting for such differences. It also has a managerial implication about how banks and insurance in Nigeria release the financial report as required by regulation to avoid information asymmetry due to creative accounting or financial reporting lag. Consequent upon the study's small sample due to consolidation, the study cannot generalize on the boardroom politics for all listed companies in Nigeria.

Recommendations

The study recommends as follows:

1. Regulators in Nigeria should brace up by providing more enabling and effective governance laws that would enhance financial reporting quality in addition to the existing one which several stakeholders' complaints have made them appeared ineffective and more difficult.
2. Absolute independence and adequate audit fees would certainly ensure a

higher quality of financial reporting and increase stock performance, thereby attracting prospective investors and yielding more dividend for equity holders.

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