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The Impact of Corporate Governance on the Quality of Financial Reporting in the Nigerian Chemical and Paint Industry

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ABSTRACT
Corporate governance is of fundamental significance in the business affairs of the Nigerian Chemical and paint Industry. It encompasses the effective administrative role of the management towards achieving sound and growing financial performance in this industry. This study seeks to examine the impact of corporate governance on the quality of financial reporting in the Nigerian Chemical and paint Industry. The total number of quoted companies on the Nigeria Stock Exchange as at December 2013 is taken as population, while sample of four (4) companies were selected for a period of five (5) years (i.e. 2009-2013).The data used were obtained through secondary source, that is from the annual reports and accounts of the selected companies and the data where analyzed using correlation and regression. The study concluded that Board size as well as Board Independence have insignificant effect on the quality of financial reporting in the Nigerian Chemical and paint Industry. It was also concluded that the presence of non-executive directors in the audit committee of firms in the Nigerian Chemical and paint Industry have an insignificant effect on financial reporting quality. It was however recommended that the regulatory agencies should set up a committee to verify the appointment of non-executive directors so that grey directors should not form part of the board of firms in the industry, SEC in collaboration with other regulatory agencies should ensure that firms in the Nigerian Chemical and paint Industry have competent and experienced directors on their board. Finally, the non-executive directors should possess the technical skills and experience necessary to ensure that the high quality reporting system exist in the Nigerian Chemical and paint Industry.

CHAPTER ONE
INTRODUCTION
1.1 Background to the study

The incidences of financial scandals as well as the recent collapse of major corporate institutions in the USA, Asia and Europe have succeeded in bringing to limelight, the sin-qua-non role of sound governance practice in corporate institutions, thus making the concept of 'corporate governance' a topical issue across borders today.

There has been a considerable debate in recent times concerning the need for strong corporate governance, with countries around the world drawing up guidelines and codes of practice to strengthen governance (Corporate Governance Code of Nigeria, 2003 and 2006).

The term corporate governance can be defined as the system, procedure, structure or mechanism established by cooperate body which the aim of controlling the affairs of the entity to a path that will maximize value to its shareholders (Abbati 2014). Magdi and Naderah (2002) stress that corporate governance is about ensuring that business is run well and investors received a fair return. OECD (1999) provides a more encompassing definition of corporate governance as the system by which business corporations are directed and controlled. The corporate structure specifies the distribution of rights and responsibilities among different participant in the corporation such as the board managers, shareholders and other stakeholders. It spells out the rules and procedures for making decision on corporate affairs. By doing this it provides structure through which the company's objective are set and the means of attaining those objectives and monitoring performance.

An important component of the information system of an economy is financial reporting, through which an enterprise conveys information about its financial performance and condition to external users, often identified with its actual and potential claimants. Financial reporting is the process that creates stewardship assertions in the form of financial and non-financial business information statements reflecting the results of activities and transactions of an entity for a period of time (Wikipedia). Financial Reporting center's on information disclosure for the purpose of decision making by various users. So many users exist with diverse interests. Therefore, financial reports communicate between the Directors and the outsiders including the owners and the general public. The knowledge of quality of financial reporting is not only the quantum of shareholders value being created, but also how the knowledge could be released to them to aid their decision-making.

The relationship between corporate governance and quality of financial reporting was the subject matter to many researchers in the past two decades. The development of global markets demonstrates an efficient role that corporate governance in preventing fraud and management misconduct. It has been that corporate governance is essential since it guarantees minimum level of assurance to the stakeholders and best management of company's asset without being abuse by individuals.

Good corporate governance by boards of directors is recognized to influence the quality of financial reporting, which in turn has an important impact on investor confidence (Levitt, 1998 and 2000). Studies have

shown that good governance reduces the adverse effects of earnings management as well as the likelihood of creative financial reporting arising from fraud or errors. Traditionally, the external auditor has also played an important role in improving the credibility of financial information (Mautz and Sharaf, 1961; Wallace, 1980).

Current trends however seem to show that despite these efforts, the subject of ethically sound reporting by organization to their shareholders, the government as well as the entire public portrays the scenario of a battle yet to be won as the level of compliance by the primary stakeholders of these firms as well as its consequent effectiveness remain of utmost concern. For the record, reported cases of poor as well as fraudulent financial reports and governance issues have cut across both large and small firms, world known and otherwise. Examples of these firms are; Enron, World Com, Xerox, Lever Brothers (Unilever Plc.), Savannah Bank, as well as Cadbury Nigeria Plc. to mention a few.

This study therefore focuses a searchlight on the roles of corporate board and audit committee on the quality of financial reporting in the Nigerian chemical and paints Industry, so as to ensure that the users of financial report get a fair and qualitative representation of the firms operation and position.

1.2 Statement of Research problem

The weakness of corporate governance is perhaps the most important factor blamed for the corporate failure consequences from the economics and corporate crises. There is much that can be done to improve the integrity of financial reporting through greater accountability, the restoration of resources devoted to audit function, and better corporate governance policies.

It has been established that investors require audited financial report of companies for them to be able to pass their judgment. In the recent past we have seen quite a number of such audited financial reports that were totally misleading. Inadequate, or even misleading financial statement are almost always involve in virtually any corporate failure such as the cases of Enron, Tyco, Adelphia and WorldCom in the US, Polly Peck, Maxwell Communications and BCCI in the U.K. and quite a number of banks in Nigeria e.g. Gulf bank, Savannah Bank, (2002) all of which have changed the perception of users on the quality of their report.

Series of studies have been carried out on corporate governance structure and challenges of developing and implementing of good corporate governance system but the irony is that these studies have been carried out in places like UK, Germany, Japan, France, Bangladesh etc. Previous empirical studies have provided the connection between corporate governance and financial reporting quality. Hasan (2010), assesse the influence of corporate governance on corporate financial reporting disclosures in Bangladesh, Mohammed and Umar (2011) focused on the influence of corporate governance attributes on firms' financial performance in Malaysia, Berndt and Leifried (2007) assessed corporate governance and financial reporting.

In Nigeria, Adenikinju and Ayorinde (2001), examine corporate governance mechanism and firms' performance, while Yahaya and Ibrahim (2007) focused on the quality of financial reporting in Cement Company. Garba (2014) examined the impact of corporate governance on the quality of financial reporting in the Nigerian Consumer Goods Industry. Temitope (2008) assessed corporate governance and financial reporting in the Nigerian banking industry. However none of these focused specifically on impact of corporate governance on the quality of financial reporting in the Nigerian chemical and paint Industry. Hence this study intends to bridge the knowledge gap.

1.3 Objectives of the study

The main objective of this study is to examine the impact of corporate governance on the quality of financial reporting in the Nigerian chemical and paint Industry. Other specific objectives include:

i. To determine the relationship between board size and quality of financial reporting in the Nigerian chemical and paint Industry.
ii. To determine the relationship between board independence and financial reporting quality in Nigerian chemical and paint industry.
iii. To determine the relationship between Audit committee independence and financial reporting quality in the Nigerian chemical and paint Industry.

1.4 Research hypothesis

The following hypotheses were formulated to guide the study:

H_0: Board size does not have significant effect on quality of financial reporting of firms in the Nigerian chemical and paint Industry.

$H_{0:}$ Board independence does not have significant effect on quality of financial reporting of firms in the Nigerian chemical and paint Industry.

H_0: Audit committee independence does not have any significant effect on financial reporting quality in the Nigerian chemical and paint Industry.

1.5 Scope of the study
The study focus on the impact of corporate governance on the quality of financial reporting of quoted companies on the floor of the Nigeria stock exchange under Nigerian chemical and paint industry.

However, in other to circumvent certain foreseen limitations, the scope of this study has been streamlined and structured in such a way that it covers, a period of five (5) years, i.e. from 2009 to 2013, the five years is selected to enable meaningful contribution to knowledge and bridge the gap of previous researches on this topic.

1.6 Significance of the study
Upon the achievement of the afore-stated objectives, this research work would be of immense importance to;

- **Investors and Shareholders:** To whom the reporting of financial information is primarily tailored to satisfy. The research would be of immense benefit to these users of financial statement for they will be able to assess the effectiveness and efficiency of the corporate governance framework in Nigerian chemical and paint Industry.
- **Directors**: Upon whom is vested, the responsibility of running the business of the firm on behalf of its owners, thereby making them abreast of their roles as Board members and Audit committee members.
- **Government & Regulatory bodies:** This research will enable them to analyze the level of compliance with the laid down statutory regulations and code of conduct. It will also give them the opportunity to compare the quality of financial reports with other industries and countries to ensure compliance with global standard.
- **Creditors**: Due to the nature of the Industry i.e. Nigerian chemical and paint sector in which raw materials are sourced from the agricultural sector making the dependent on them. So they become major creditors with them, there by necessitating the need for a true and fair view of the position of such an industry, henceforth this research work will be of immense important to their decision on which firm to sell to and on what terms.

Finally the study will contribute to the body of relevant literature and reference materials for future researchers who may want to conduct further studies on corporate governance and financial reporting practices.

CHAPTER TWO
CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

2.1 Introduction
This chapter deals with the review of related conceptual literature on the area of the research. The review basically provides an insight into the concept of corporate governance and financial reporting. Empirical studies on the subject matter were also reviewed. Finally in this chapter, the theoretical framework that formed the basis of this research is equally examined.

2.2 The Concept of Corporate Governance
It is difficult to define the concept of corporate governance in a universally acceptable way because definitions vary from country to country. Moreover, countries differ from each other in terms of culture, legal systems and historical developments (Ramon, 2001). This explains why there is a wide range of definitions of the concept of corporate governance.. The term corporate governance was first used more commonly in the North America legal literature of the 1970s. Adam Smith pointed out in 1776 that “the directors of such companies, however, being the manager rather of other people’s money than of their own. It cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private company frequently watch over their own negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company” (Smerdon 2004).

The Australian Standard (2003) defines corporate governance as the process by which organizations are directed, controlled and held to account. This implies that corporate governance encompasses the authority, accountability, stewardship, leadership, direction and control exercised in the process of managing organizations. Since this definition recognizes the need for checks and balances in the process of managing organizations, it can be considered to be more comprehensive (Gregory, 2000). Moreover, it is similar to the definitions provided by the Audit Commission (2009) and CIPFA/SOLACE (Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives 2007) which emphasizes on the core aspects of accountability and control in the governance of organizations.

The known Organization for Economic Corporation and Development (OECD) (1999) also defined corporate governance as “a system on the basis of which companies are directed and managed”. In another prospective, Arun and Turner (2002) contend that there exist a narrow approach to corporate governance, which views the subject as the mechanism through which shareholders are assured that managers will act in their interest. However, Oman (2001) observed that there is a broader approach which views the subject as the methods by which suppliers of finance, control managers in order to ensure that their capital cannot be

expropriated and that they earn a return on their investment. Cadbury (2000) define corporate governance as "being concern with holding the balance between economic and social goals and between individuals and communal goals. The corporate governance framework is there to encourage efficient use of resources and equally to report accountability for the stewardship of those resources" the aim is to align as near as possible the interest of individual, corporation and society.

O'Donovan (2003) defines corporate governance as "an internal system encompassing policies, process and people, which serves, the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy objectivity, accountability and integrity". Corporate governance has received increasing emphasis both in practice and in academic research (Blue Ribbon Committee Report 1999; Sarbanes-Oxley 2002; Bebchuk and Cohen 2004; Debor and Adeyemi, 2009; and Shehu, 2012). This emphasis is due, in part, to prevalence of highly publicized and flagrant financial reporting frauds, earning restatement or earning management as in the case of Enron, WorldCom, African Petroleum Plc., Spring Bank, Wema Bank, Cadbury Plc., Adelphia and Parmalat, which eroded the confidence of users on the financial statement (McMullen, 1996; Beasley 1996; Dechow, Sloan and Sweeney, 1996; Beasley, Carcello and Hermanson, 1999; Loomis, 1999; Krishnan, 2001; Klein, 2002; Carcello and Neal, 2002; Beasley, Carcello and Hermanson, 2002; Palmrose and Scholz, 2002; Wu 2002; Larcker, Richardson and Tuna, 2004; Dabor and Adeyemi, 2009; and Tijjani and Dabor, 2010).

In Nigeria concerns have been expressed about the large scale malpractices and abuse of the system by capital market operators in the past especially following the recent incidence on the sale of forged shares of publicly quoted companies. Companies have gone into liquidation for reasons bothering on ineffective or non-existing systems of corporate governance. Examples are Onwuka Hitech, Abacus merchant bank and others. Two other cases which evolve falsification of accounts by directors and management of quoted companies that have now become public knowledge are those of Lever Brothers PLC where evaluation of stocks running into millions of naira was discovered and the case of Africa Petroleum where about 24 billion naira credit facility were not disclosed, in spite of the due diligence review carried out by the core investors and the reporting accountants. Certainly, those unethical earnings management practices would not have gone undetected with good corporate governance system being in place. All of these drive home the need to instill and implement sound corporate governance structure which will promote corporate fairness, transparency and accountability. Tijjani and Dabo (2010). The first structure of corporate governance in Nigeria is the companies and allied matters Act 1990 though it can be referred to as government legislation bordering on corporate activities. This Act distinguishes the various interest groups in the corporate activities and the dealings between each recognized group.

2.2.1Evolution of Corporate Governance in Nigeria

The concept of the corporation was foreign to the indigenous customary business practices of pre-colonial Nigeria. The first corporations to operate in Nigeria were British companies chartered in England. They arrived in the second half of the 19th century (Ahunwan, 2002). One of first and most important of these was the National African Company (later renamed the Royal Niger Company), which was chartered in 1886 (Ukpabi, 1987, p. 3). Between 1862 (when colonial rule was formally established in Nigeria) and 1912, all of the corporations that operated in Nigeria were foreign companies registered in England and subject to the law and ideology of the British corporate governance system (Orojo, 1992). According to Ahunwan (2002), the first corporate statute in Nigeria was enacted in 1912 but corporate governance in Nigeria during the period of colonial rule remained a part of the British system of corporate governance. He opines that it is only in the post-colonial period that one can begin to speak of "Nigerian" corporate governance. He captures the scenario in the context that "Following independence in 1960, several factors affected the direction of corporate governance in Nigeria. Perhaps, most important among these were the dominant ideological convictions of the post-colonial period, which stressed economic self-dependence. Firstly, the government imposed absolute control over public utilities. Secondly, the government promoted indigenous ownership in other sectors of the economy. Two pieces of legislation were key to this strategy, viz., the Foreign Exchange Control *Act* of 1962 (hereinafter "the FX Act") and the Nigerian Enterprises Promotion Decree, No. 4 of 1972, often referred to as the "Indigenization Decree" (hereinafter "NEPD")" (Ahunwan, 2002:2). As a result, this legislation promoted the indigenous participation in the manufacturing industry and the issue of separation of ownership and control arose and thus gives birth to corporate governance.

As Nigeria economy continues to grow, and the firms began to seek capital to finance expansion into the market spaces created by liberalization and the growth of outsourcing (Shamsuddeen 2007). However, the need for capital, amongst other things, led to corporate governance reform. This, together with the realizing need to align with the International Best Practices following the collapse of the reputable corporations and distorted financial reporting of some organizations the SEC in collaboration with the Corporate Affairs Commission inaugurated a seventeen (17) member committee in 2000, headed by Atedo Peterside to identify weaknesses in the current corporate governance practice in Nigeria and fashion out necessary changes that would improve it.

Consequently, the Securities and Exchange Commission promulgated the Nigerian Code of CG in 2003 which was later reviewed in 2011 to enhance its effectiveness. This code requires companies listed on the Stock Exchange to appoint independent directors and supervisors, including at least one financial expert, and to establish an audit committee.

2.2.2Principles of Corporate Governance

For a good and successful practice of corporate governance the world over, its basic and commonly accepted principles must be adhered to. These principles include:

i. Rights and Equitable Treatment of Shareholders:

This implies that there are certain fundamental rights of the shareholders which organizations must respect and strictly uphold. Shareholders should equally be allowed to exercise their rights without fear or favor. Organizations are duty bound to give clear interpretation of these rights for better understanding by the shareholders as well as ensuring shareholders' participation in the affairs of the corporation through general meetings.

ii. Interest of Stakeholders: Corporations are obliged to recognize, in their policies and other aspect of operations, their legitimate stakeholders as having legal and other obligations which should be fulfilled at all time.

iii. Role and Responsibility of the Board of Directors: As a matter of fact, board members should be constituted by people and expertise with the required knowledge. Put differently, technocrats of excellent skills and comprehensive understanding should form the board to be able to deal with various business issues in order to review and challenge management performance. The size of the board should be sufficient enough with appropriate level of commitment to fulfill its responsibilities and duties.

iv. Integrity and Ethical Behavior: This is quite central to the practice of good governance. It involves ethical and responsible decisions making which is necessary in managing risk and avoiding lawsuits. Corporate organizations should evolve a clear cut code of conduct to guide the conduct of their directors and executives. This enhances their sense of duty and consciousness of the interest of all stakeholders.

v. Disclosure and Transparency: Corporate governance requires high level of accountability. Hence, organizations should make concerted efforts to publicize the roles and responsibilities of board and management in order to make them accountable to the shareholders. Also, there should be set of procedures to ensure independent verification of the company's financial reporting to safeguard the integrity of the organization. All investors should equally have access to timely and balanced disclosure of materials and factual information concerning the organization.

However, to make these principles very effective, certain mechanisms have been designed by experts to control and reduce the inefficiencies that could arise from moral hazard and adverse selection in relation to corporate governance. For instance, the behavior of managers can be monitored and checked by an independent third party in the name of external auditor who attests to the accuracy of the information provided by the management to investors. Other mechanisms of control for the effectiveness of these principles include: monitoring by the board of directors, internal control procedures and internal auditors, balance of power, standard remuneration, competition, takeovers, media pressure and surveillance, government regulations and so on.

2.3 Corporate Governance Mechanisms

Corporate governance mechanism of each country is shaped by its political, economic and social history and also by its legal framework. Despite the differences in shareholder philosophies across countries, good governance mechanisms need to be encouraged among all corporate and non-corporate entities. (Hermalin and Weiisbacla, 2001, Jensen and Meckling, 1976). Some of the mechanisms as postulated by Shleifer and Vishnys (1997), are examine below;

2.3.1 Board independence

The state of '*independence*' is met when a director *inter alia* is neither holding significant ownership nor holding any executive position in the company (Bursa Malaysia, 2006). In Bangladesh, SEC corporate guidelines stated that one-tenth of the total number of the company's board of directors, subject to a minimum of one, should be independent directors. But in Malaysia, if a company has only three board members, two of them are required to be independent (Bursa Malaysia, 2006).The board, which comprises a number of independent directors, has a greater monitoring and controlling ability over management (Fama and Jensen, 1983). Cheng and Courtenay (2004) and Norita and Shamsul-Nahar (2004), Ho and Wong (2001), Fama and Jensen (1983), found a significant positive association. On the other hand, Barako . (2006), Gul and Leung (2004) and Eng and Mark (2003), found a negative association. In fact Weir and Laing (2001) stressed the role of committee structure as a means of increasing the independence of the board. They refer to the work of Klein (1998) and argue for the need to set up specialized committees on audit remuneration and appointment.

2.3.2 Board size

The number of directors is an important factor in the board of directors' effectiveness. A larger board size may

bring a greater number of directors with experience (Xie et al., 2001) that may represent a multitude of values (Halme and Huse, 1997) on the board. On the contrary, Monks and Minow; (1995), argues that large board rooms tends to be slow in making decisions and hence can be an obstacle to change. A second reason, for the support of small board size is that directors rarely criticize the policies of top managers, and that this problem tends to increase with the number of director. A reduced number of directors imply a high degree of coordination and communication between them and managers (Jensen, 1993). Chaganti (1985) claimed that smaller boards are manageable and more often play a role as a controlling function whereas larger boards may not be able to function effectively as the board leaves the management relatively free. Yermack (1996) concluded that the smaller the board size, the better the performance and proposing an optional board size of ten or fewer. Indeed, Ahmed *et al*. (2006), Bradbury *et al*. (2006) and Vefeas (2000), found that large board size reduces the information content of income and intensifies the earning management respectively for American, Singapore and New Zealand firms.

However, several authors argued that the high number of directors ensures the value relevance of financial statements (Byard *et al*., 2006), while others did not confirm this link (Firth *et al* 2007). The study by Bonn (2004) found no relationship between board size and firm performance. She further argued that the board size only measures the factual number of directors without capturing their task. Hence, one could argue that it is the skills and knowledge base that the board brings to the firm not the number. In contrast, Dwevedi and Jain (2005), found an insignificant positive relationship. They conclude that larger boards are in a position to improve the governance of the company.

2.3.3 Audit Committee Independence

Independence has been defined as having "no relationship to the corporation that may interfere with the exercise of their independence from management and the corporation" (BRC, 1999). We propose that audit committees consisting solely of independent (or outside) directors will be more effective and are likely to call for greater depth and scope of internal audit activities and procedures, which in turn would enhance internal controls and the effectiveness of the internal audit function. The motivation for independent directors to seek a more effective internal audit function is related to two reasons.

First, independent audit committee members are more likely to demand higher audit quality in order to protect their reputation (Abbott & Parker, 2000; Carcello & Neal, 2000). According to reputational capital enhancement theory, independent directors generally hold a high reputation in the business community and they view the directorship as a means of further developing their reputation as experts in decision making (Fama & Jensen, 1983). It is thus argued that independent directors are more likely to fear damage to their reputation as a result of financial misstatements (Abbott & Parker, 2000). Consequently, such directors are expected to demand a higher level of internal audit quality in order to identify and avoid any financial misstatements, and the resulting reputational damage.

Second, independent directors are not economically dependent on the company, and thus are arguably less biased over an entity's financial outcomes (Beasley *et al*., 2000). For instance, they would have less incentive to accept any mismanagement that may affect a firm's financial performance due to their financial independence. Consequently, when faced with financial reporting issues that may need further investigation e.g. an accounting policy treatment, more independent audit committees are likely to seek in-depth audit coverage.

Several empirical studies that have explored the association between audit committee independence and financial reporting outcomes indicate that firms with more independent members display better financial reporting quality. For example, Beasley *et al*. (2000) found that companies committing financial statement fraud have less independent committees than the industry benchmarks. Likewise, Abbott *et al*. (2000), based on 78 matched pairs of fraud and no-fraud companies found that no-fraud companies tend to have more independent audit committees than fraud companies.

2.4 Legal Framework of Corporate Governance

Nigeria has had its share of inelegant business practice that have resulted in failed corporate giants that have stood firm without any overt sign of trouble (Eweille and Nwauche, 2004). Thus, within Nigeria's domestic corporate settings, the effect of the unwholesome international corporate governance climate engendered a renewed emphasis on effective corporate governance standards. Hence, the code of best practices on corporate in Nigeria was launched (corporate governance code 2003) to lay emphasis on this credence. However, before the regulations of the code of corporate were punched in 2003, the following regulations were in place:

- Companies and allied matter act (1990); it presents the duties and responsibilities of managers of public limited liability companies.
- Investment and securities act (1990); it requires the Securities and Exchange Commission to regulate and develop the capital market, maintain orderly conduct, transparency and sanity in order to protect investors.
- Banks and other financial institution act (1991); it requires the central bank of Nigeria to register and

regulate the bank and allied institutions

- The Nigerian accounting standards Board Act (2003). It empowers the NASB to enforce compliance with statement of accounting standards issued by it, by all the public limited liability companies.
- The insurance act (2003); It empowers the Nigerian insurance companies to register and regulate the insurance business in Nigeria.

2.5 The Concept of Financial Reporting

Financial reporting, the predominant occupation of the accounting profession is the process through which information about organizational performance and financial position is presented to the users. It is often believed to be precise and factual in its contents and, attested to by external person(s) (Independent Auditors) confirming its validity (Kantudu and Atabs, 2007, p.155).

Financial reporting is the process that creates stewardship assertions in the form of financial and non-financial business information statements reflecting the results of activities and transactions of an entity for a period of time (Anumaka, 2010). Anumaka further argues that financial reporting is to a large extent a studied assessment of the operational performance of an entity expressed in financial terms to reflect the economic exercise of fiduciary obligation.

According to Crockett (1996: p.56), "financial reporting covers the mechanism for providing information about the financial condition, performance and importantly, risk profile of firms to all potential users. It is, therefore one of the most basic elements of the financial infrastructure".

Kieso and Weygandt (1980) defines financial reporting as that branch of accounting which focuses on the general purpose report on the financial position and results of operations known as financial statements, which provide a continual history quantified in money terms of economic activities that change these resources and obligations. The process which culminates into preparation and presentation of financial reports relative to the enterprise as a whole; for use by parties both external and internal to the enterprise, is referred to as financial reporting. Similarly, accounting has been defined as the process of identifying, measuring and communicating socio-economic information to permit informed judgements and decisions by the user of the information (Glautier and Underdown, 1978).

Kieso and Weygandt (1980) state that the principal means of communicating financial information to those outside an enterprise are the financial statements. The financial statements most frequently provided are the balance sheet, the income statement of changes in financial position, and statement of changes in stockholders' equity with corresponding appropriate footnotes disclosures.

Financial reporting essentially involves the preparation and issuing of financial statements. These are formal records of financial activities of entities showing their financial condition for a given period of time. They are usually expected to comply with regulatory and professional requirements.

Financial statements are defined to be a subset of financial reporting, but no limits are provided on a number of elements of financial reporting that one may include in financial statements, Dopuch and Sunder (1980). All of the accounting information developed within an organization is available to management. However, much of the company's financial information also is distributed to people outside of the organization. These "outsiders" may include investors, creditors, financial analysts, labour unions, and the general public – even the company's competitors. Each of these groups supplies money to the business or has some other interest in the company's financial activities (Meigs et.al, 1996).

The process of supplying general-purpose financial information to people outside the organization is termed financial reporting. In the United States and most other industrialized countries, publicly owned corporations are required by law to make much of their financial information "public" – that is available to everyone. These countries also have enacted laws to ensure that the public information provided by these companies reliable and complete (Meigs et.al, 1996).

2.5.1 Objectives of financial reporting

According to International Financial Reporting Standard; (IFRS) 2007; the major objective of financial statement is to provide financial information about the financial position, performance and changes in the financial position of an entity that is, useful to wide range of users in making economic decisions.

Basically, provision of financial information is concern with the disclosure in the financial statement; it is paramount to discuss the concept of disclosure with regard to this research work. Rappaport; (1962); stated that for reporting to be channeled properly, there has to be determination of whom the report should be addressed to determination of what type of such information should be examine by independent public Accounting.

Different Authors also attempted to define disclosure; Kieso and Weygand; (1980); argued that full disclosure principle requires that the presentation of sufficient information to permit the knowledgeable readers to reach, an inform decision instead of indulging in guessing name. Chetkoivich; (1955); state that disclosure is that tangible measure of adequacy of the descriptive and supplement formation in the financial statement.

From here, we can conclude that, accounting information that is designed to satisfy the shareholders need

alone is not credible enough except where it is able to consider other group.

In order to achieve all the above mention objectives there is need for qualified financial accounting standard which ensure that financial reporting are prepared to achieve them.

2.5.2 Quality of financial accounting standards

Accounting standards are important regulatory devices of accounting. They serve as a template contract parties who participate in a firm such as management, creditors and shareholders (Sunder, 2002). Financial reporting standards provide guidance on how accounting information should be recorded, reported and interpreted. Levitt (1996), in identifying what high quality accounting standard delivers, stated that educated investors need relevant useful information to make their investment decisions. Differences in quality of accounting standards, specifically, play a role in differences in value relevance of accounting numbers (Graham and King; 2002; Babalyan, 2001; Bartov, Goldberg, and Kim, 2002). Accounting standards determine how the accounting earnings information should be calculated and reported.

High quality standard influences the user's perception of quality of financial information. A better perception of the standards would lead to the standards being used creating accounting information that are more readily used by the information users that eventually enhance the value relevance of accounting information. High quality accounting standards are perceived to provide consistent, comparable, relevance and reliable financial information to the investors for making informed investment decision.

To assess the quality of the accounting standards SEC (2000) emphasizes the accounting standard must result in a consistent application, provide for transparency and full disclosure. The aim is that the standards produce relevant and reliable information that is useful for investors to make well-informed decisions. Accounting standards that fulfill such quality measures create high quality accounting information specifically information regarding firms earnings. Ball et al. (2000) provide evidence that accounting earnings in enhancing common-law accounting countries accounting standards countries are substantially more timely and conservative than code law countries, particularly in incorporating loses. Ashbaugh and Pincus (2001) demonstrate that differences in countries accounting standards relative to IAS and earning forecast errors of analysts are positively related. This means that the smaller the difference of national accounting standards with IAS, the smaller the earning forecast errors. Additionally, they also found improvement in analyst forecast accuracy after firms adopt IAS. This suggests that firm's financial accounting information become more predicable following adoption of IAS. In general, both studies provide evidence that accounting standards directly contribute to the computation and quality of earnings.

Graham and King (2000) found that difference in accounting procedures, namely accounting for goodwill, asset revaluations, leases, research and development expenditures and equity method of accounting for affiliated companies are related to differences in value relevance of earnings. In single country studies, the evidence from German (Bartor etal,2002) and Swiss companies (Babalyan,2001) show that accounting earnings prepared under US GAAP demonstrate greater value relevance than earning prepared under IAS or German or Swiss accounting standards. The results imply that US GAAP has higher quality compared to IASs, German or Swiss accounting standards. Leuz (2003), holding other institutional factors such as listing requirements and enforcement of accounting standards constant, suggest that US GAAP and IASs reduce information asymmetry in capital markets, in brief, the above studies show that quality of accounting standards affect investors perception regarding quality of financial reporting, especially earning information.

One common ground from the above arguments is that high quality accounting standards reduce analyst forecast errors and information asymmetry between prepares and users of financial reports. Better quality financial information, as a result, will mitigate the agency problem between contracting parties. The above arguments lead to the following hypothesis, which is an extension of the extant studies to a cross-country setting using country level data. Let us now look into the effort made by Nigeria in setting quality standard.

2.5.3 Statutory framework of financial reporting in Nigeria.

This refers to all standard and related interpretations issued by International Accounting Standard Board (IASB), corrupt practices and other related offence Act. Of (2001) and the Economic and Financial Crime Commission Act. Of (2002), laws include Nigerian Stock Exchange Act. Of (1961) Institute of Chartered Accountant of Nigeria Act. Of (1988), company and Allied Matters (CAMA) Act. Of (1990), Banks and other financial institution Act. Of (1991), Association of National Accountants of Nigeria Act. Of (1993), Investment and Securities Act. Of (1999), Security and Exchange Commission rules and regulation (1999).

2.5.4 Disclosure requirement under CAMA (1990) as amended

The company and Allied Matters Act of (1991), is the major law that regulate the operation of companies operating in Nigeria. CAMA (1990), stated the information to be disclosed in the financial statement of companies operating in Nigeria; section 334 (1-3) of the company and Allied Matters CAMA (1990); stated the minimum information to be disclosed in the balance sheet, profits and loss account or income statement, note to the account, Auditors reports and Directors report, statement of service and Application of fund and five year financial summary.

2.5.5 Disclosure requirement under BOFIA (1991)
The banks and other financial institution Act of (1990) as amended specifies some information and statements to be disclosed in the financial report of banks and other financial institution operating in Nigeria. Section 24-29 of the Act. Laid down the minimum information disclosure policies, publication of Annual report and Accounts, balance sheet and profits and loss accounts, Auditors and directors reports as the provision are given below; Keeping proper books of an Account, Publication of Annual accounts (statement), Directors report and Auditors report, Contents and forms of Account.

2.5.6 International financial reporting standards
The International Financial Reporting Standards prescribe the basis for the preparation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. Basically, the provisions are that an entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation. When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern (IASB, 2010).

2.5.7 Quality of good financial accounting information
In an attempt to describe attribute of useful accounting information, statement of financial accounting standard board is found useful for its attempt to serve as a good material guide for standard development and individual business choice of accounting procedures (FASB, 1980). However, the statement has emphasized on relevance and reliability as the primary qualities useful that accounting information should possess, even though verifiability, neutrality, conservatism, comparability, consistency, understandability, cost/benefit and materiality are mentioned. Glautirer et al (2001) further classify the qualities as those relating to information to be contained in the reports and others that relate to know information is presented. Furthermore, Glautirer et al (2001) gave basically emphasis on four factors (materiality, relevance, reliability and understandability). An attempt is made by the researcher to briefly give the highlight of the attributes to be able to appreciate fully the factors that can enhance the quality of financial reports.

- **Relevance:** This is defined as the capacity of information to manage a difference in a decision by helping the users to form predictions about the outcomes of past, present and future events or to confirm or to correct prior expectations (FASB, 1990). To Glautirer, (2001), for information to be relevant, it must have two values of being predictive and confirmatory. It clearly shows that the two minds intersect.
- **Reliability**: For information to be reliable it should possess four qualities as given by Glautirer, (2001) and FASB (1990). These are: Free from material error; faithful representation; neutrality and prudence. However, the latter source identified completeness (i.e nothing material has been left out of the information) as additional quality.
- **Understandability:** Understandability means that financial statements should be readily comprehensible. The main qualitative characteristic of understandability ensures that financial statements are reported in a simple manner, a manner in which even the general public and consumers can understand (Ramos, 2008). Accounting is already a complex art so it is important that accountants simplify financial statements so that they are in an easy-to-read format with rows and columns, they are user-friendly, and the explanations are located in a separate area, away from the data to avoid unnecessary delays and misinterpretation of financial data (Ramos, 2008 and Erika, 2010).
- **Materiality:** Information is material if it is capable of influencing user's decision taken on the basis of financial statements (Glautirer et al, 2001). However, FASB, 1990 defined materiality as " the magnitude of an omission or misstatement of accounting information that in the light of surrounding circumstances, makes it probable that judgment of reasonable person relying on the information would have been changed or influence by the omission or misstatement."
- **Verifiability**: This refers to the ability through consensus among measures to ensure that information represents what it purposes to represent or that the chosen method of measurement has been used without error or bias. The information in financial statement must have this power for comparison to take place. Basis of the preparation must be disclosed to enable another party arrive at the same information or how they were arrived at (Glautirer, 2001 and Udu, 2009).
- **Neutrality:** This is defined by FASB (1990) as "the absence in reported information of bias intended to attain a predetermined result or to induce a particular mode of behavior".

However, the other relevant term found useful to this research that also enhance quality in financial reports are timeliness (i.e. producing information in good time), understandability (which depends on users ability and aggregation and classification) benefit/cost a general principle, the benefit derived shall exceed the cost of

providing it) and comparability (by enhancing consistency and disclosure). Therefore, the research now will look into the prior researches conducted on the or similar topic that is impact of corporate governance and the quality of financial reporting.

2.6 Review of Empirical Studies

There have been a number of academic literature by various relevant scholars on this topic and almost all of them have mismatch results for instance, Abdulkadir and Noor, (2013), examined whether audit committees are associated with improved financial reporting quality. Using a sample of 70 companies listed on the Nigerian Stock Exchange, the study uses archival data in the form of companies' annual reports to measure the association between audit committees and improved financial reporting quality. They employed Dechew and Dichev (2002)'s model to measure earnings as a proxy for financial reporting quality. Their findings show that formation of audit committees was positively associated with improved financial reporting quality. They also found out that audit committees having an independent chair and audit committee expertise were positively associated with financial reporting quality.

Similarly, Shehu, (2013) whose study examines monitoring characteristics and financial reporting quality of the Nigerian listed manufacturing firms. Monitoring characteristics involves; leverage, independent directors, audit committee, institutional, block and managerial shareholdings. Through the use of modified Dechow and Dichev's (2002) model. Using 32 firms-years longitudinal paneled of 160 observations, panel OLS is estimated and controlled for fixed/random effects. The result shows a significant positive relationship between monitoring characteristics and financial reporting quality. They also recommend that shareholders of the firms should ensure that the board of directors in Nigerian manufacturing firms should be composed in such a way so as to ensure diversity of experience without compromising, compatibility, integrity, availability and independence and uphold debt to enable them check mate the manipulative accounting by management when preparing financial statements. Also in the same vain Kajola (2008) examines four corporate governance mechanisms together. (Board size, board composition, chief executive status and audit committee). The study found out that the relationship between board composition and the two variable measures (Return on Equity and Profit Margin) is not statistically significant. The implication of this is that for the sampled firms, there is no relationship between the firm financial performance and the outside director sitting on the board.

In another similar vein, Yau and Emmanuel (2013) investigate the impact of corporate governance on voluntary information disclosures of quoted companies in Nigeria using data from 385 annual reports from a sample of 35 quoted companies during 1999 – 2009. The study also adopted Pre and Post approach to study the significant difference on information disclosures during pre and post corporate governance codes era in Nigeria. He further reveals that corporate governance has significant impact on financial reporting of quoted firms in Nigeria and that the level of voluntary disclosure has significantly improved after the introduction of corporate governance codes in Nigeria.

In a similar study, Garba (2013) examined the impact of corporate governance on the quality of financial reporting in Consumer Goods Industry in Nigeria. The total number of quoted companies on the Nigeria Stock Exchange as at December 2012 was taken as population, while sample of five (5) companies were selected for a period of five (5) years (i.e. 2008-2012).The data used were obtained through secondary source, that is from the annual reports and accounts of the selected companies and the data where analyzed using correlation and regression. The study concluded that Board compositions as well as Board size have positive relationship on the quality of financial reporting in Consumer Goods Industry in Nigeria. It was however recommended that an optimal audit committee ranging from 5 to 6 should be maintained as it does have significant effect in this industry. It also recommended that increasing the non-executive directors which will increase board composition and hence provide higher financial reporting quality in Nigeria Consumer Goods Industry.

Dalhatu (2012) also examined the impact of corporate governance on the quality of financial reporting in the Nigerian Foods and Beverages industry. He used both primary and secondary methods of data collection. Chi-square method of data analysis was used to analyze the data obtained. The results obtained provide evidence of a positive compliance with the Code of Corporate Governance, which is believed to influence the information disclosure by the companies operating under the umbrella of Foods and Beverages sector. The research work, therefore recommends that the Nigerian Stock Exchange and other regulatory agencies should review the Code of Corporate Governance practice from time to time to ensure that adequate disclosure is maintained. Baba (2011) examined the effect of firms governance on the quality of financial reporting of Nigerian quoted manufacturing firms. The data is extracted from 12 sample firms representing 50% of the all quoted manufacturing companies in Nigeria as the population of the study. Multiple regressions was used as a tool of analysis for the study. The result reveals a positive strong relationship between firm governance and financial reporting quality of quoted manufacturing firms in Nigeria. It is therefore, recommended among others that the regulators should enforce more on the financial statements disclosure and transparency among companies quoted on the NSE as to ensure a higher quality of financial reporting.

At international level, Jamil, Mohamad, Mamdouh and Hassan (2013) examined the impact of governance on the quality of financial reporting, a field study on industrial firms listed in Amman Financial Market was carried out. Where they were addressed to the concept of governance and the statement of its importance, it's objectives, principles and the role of corporate governance in Jordan, and the impact of quality of financial reports to the principles of corporate governance has been used of the two researchers descriptive analytical method in the study by collecting data from sources of primary and secondary, where data was collected through a questionnaire, were disseminated to the study population numbering 50 industrial companies, using the Statistical Package for the Social Sciences (SPSS) in analyzing the data and testing the suggested hypotheses. Which was reached to several results, including the existence fully aware of the designers and users of financial statements of the concept of corporate governance, and the foundations of application in contributing to the Jordanian industrial companies listed in Amman Financial Market. Also found that the effective implementation of the principles of corporate governance affect the quality of financial reporting, makes it more accurate and quality in a community study. Furthermore, found that there should be fully aware of the designers and users of financial statements of the concept of corporate governance and the foundations of their application in industrial companies listed on valuable Amman Financial Market. Besides that the study recommended that there will be effective implementation of the principles of corporate governance affected the quality of financial reporting and makes it more precise and worth.

Also, Heirany, Sadrabadi and Mehrjordi (2013) examined the effect of corporate governance mechanisms on the quality of financial reporting through the connection between companies operating ratios and accounting income quality. Centralization of power, the ownership percentage of institutional shareholders and board independence are among the corporate governance mechanisms which have been taken into account in the study. Sixty companies were selected as the sample among listed companies in Tehran Stock Exchange during 2006 to 2010. Multiple regressions were used to test the research hypotheses. The study showed that a strong corporate governance system creates a broad vision of the accounting process and it is associated with reported earnings.

Similarly, Chalaki, Didar, and Riahinezhad (2012) investigated the effect of corporate governance attributes on financial reporting quality in firms listed in Tehran Stock Exchange (TSE) during the period of 2003 to 2011. In the study McNichols (2002) and Collins and Kothari (1989) were used for financial reporting quality measurement purpose, and institutional ownership, ownership concentration, board independence and board size was considered as corporate governance attributes. The results of the study show that there is no relationship between corporate governance attributes including board size, board independence, ownership concentration, institutional ownership and financial reporting quality. In addition, no evidence is found to support significant relationship between control variables (audit size, firm size and firm age) and financial reporting quality.

However, Gonçalves (2010) analyzed the relationship between the composition and characteristics of corporate governance on the financial reporting quality of Portuguese companies. The population of the study include all companies with securities listed on the Portuguese Stock Exchange. The sample was composed by 234 firm observations per year, obtained by way of evidence relating to 39 firms for 6 years, with all the data related for the period of the sample. The data obtained from the sample permits an analysis based on descriptive statistics. Specifically the results show that the board composition changes and its degree of independence do not produce any influence on the quality of accounting information in the Portuguese listed companies. The board size was the only variable that presents a relationship with the level of accounting discretion, being moderately associated with an increase in the quality of financial reporting.

Again, Hasan, Hossain and Swieringa (2010) assessed the influence of corporate governance on financial reporting disclosures in Bangladesh companies. Total size of population was 40 and sample size was 20 which represent 50 percent of the total population. Descriptive Statistics was used in analyzing the data The result shows that external auditor, a corporate governance variable, can significantly influence the level of corporate financial disclosures. Other variables, such as, board independence, board-size, dominant personality, institutional ownership and general public are not meaningfully associated with the level of financial disclosures. As such, the corporate governance structure in Bangladesh is not at the acceptable level.

2.7 Theoretical Framework

Theories on Corporate Governance have been profound and tested over time. However, some of these theories include: Agency Theory, Stakeholders Theory, Resource Theory, Dependency Theory and Stewardship Theory. For the purpose of this study, Agency Theory was adopted as its best explain this work.

2.7.1 Agency Theory

The theoretical framework upon which this study is based, is the agency theory. Agency theory identifies the agency relationship where one party, the principal, delegates work to another party, the agent. The agency relationship can have a number of disadvantages relating to the opportunism or self-interest of the agent: for example, the agent may not act in the best interest of the principal, or the agent may act only partially in the best interest of the principal.

In the context of corporation and issues of corporate control, agency theory views corporate governance mechanism, especially the board of directors, as being an essential monitoring device to try to ensure that any problem that may be brought about by the principal- agent relationship are minimized. Blair (1996) states:

Managers supposed to be the "agent" of a corporation's "owners" but managers must be monitored and institutional arrangement must provide some checks and balances to make sure they do not abuse their power. Much of agency theory as relates to corporation is set in the context of separation of ownership. In this context, the agents are the managers and the principal are the shareholders and this is the most commonly cited agency relationship in the corporate governance context.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter explain the methodology adopted in the course of the study. The chapter provides highlights on the Research design, population of the study, sample size and sampling techniques, methods of data collection and methods of data analysis.

3.2 Research Design

The research design adopted for the study is the *ex-post facto*, as the study entails the use of documentary data which was extracted from the annual reports and accounts of the sampled firms. In view of the use of documentary data for the study, the use of ex-post facto research design is thought justified.

3.3 Population of the study

The population of this study covers however all publicly quoted companies listed on the floor of the Nigerian Stock Exchange (NSE) under the Nigerian chemical and paint industry. As at November, 2012 there were 8 listed companies in the Nigerian chemical and paint industry. The table below presents the population of the study.

Table 1: Population of the study

S/N	COMPANIES
1.	AFRICAN PAINTS PLC.
2.	BERGER PAINTS PLC.
3.	CAP PLC.
4.	DN MAYER PLC.
5.	SANDEX.
6.	IPWA.
7.	PCMN.
8.	PREMIUM PAINTS PLC.

SOURCE NSE Fact book, 2012

3.4 Sample Size and Sampling Technique

The researcher makes use of judgment sampling, this is in other to eliminate the deficiency involve in obtaining adequate, comprehensive and effective data as regards the randomly selected companies in Nigerian chemical and paint industry.

For the purpose of this study, 4 companies out of the 8 quoted companies were chosen from the industry, in order to test the samples and to generalize the results obtained for the entire population. This sample size is deem adequate as it represent 50% of the population. Table 2 presents the list of the sampled companies.

Table 2: sampled size

S/N	COMPANIES
1.	BERGER PAINTS PLC.
2.	DN MAYER PLC.
3.	PREMIER PAINTS PLC
4.	SANDEX

Source. Developed by the researcher from tale 1.

3.5 Source and Method of data collection

Secondary source of data was used for the purpose of this study. The documentary data was generated from the annual reports and accounts of the four (4) sampled companies. Data generated from the source were Board Size (BS), Board Independence (BI), and Audit committee Independence (ACI) and information for the computation of FRQ.

3.6 Variables of the study

The variable of this study are; quality of financial reporting as the dependent variable and corporate governance mechanism as the independent variable.

3.6.1 Independent variable

While there are numerous attributes of corporate governance mechanism, three are selected that is Board Size (BS), Board Independence (BI), and Audit Committee Independence (ACI) for the purpose of this study because of their potential impact on the dependent variable i.e. (FRQ).

The elements constituting these variables are briefly explained below:

- **Board size:** The total number of directors within a year constitutes the element of the board size.
- **Board Independence:** The ratio of non-executive director to total number of board members.
- **Audit committee Independence:** This constitute the audit committee which the member must be independent of the cooperate entity.

3.6.2 Dependent variable

The dependent variable is financial reporting quality which is part of the focal point of this study. In order to measure quality of financial report the researcher used accrual method, as in the work of; Garba (2014), Daniel (2006), Dabor and Adeyemi (2009), and Shah, Butt and Hassan (2009), they measured financial reporting quality (FRQ) using total accrual basis as follows:

TA = N.I – CFO
Where: TA is total accrual in year t
N.I is Net income in year t
CFO is cash flows from operating activities in year t.

3.7 Method of Data Analysis

The method of data analysis used by the researcher includes correlation coefficient and multiple regressions. These methods are used to test hypotheses in their null form to arrive at a logical conclusion. These techniques are employed to enable the study capture both the independent and the dependent variable.

3.7.1 Multiple regressions Analysis

Multiple regression analysis is an extension of simple regression analysis, because in multiple regression analysis, more than one independent variable are used to determine the dependent variable.

Variables that are being determined, predicted or explained by mathematical equation is referred to as dependent variables, while the variables used in determining or predicting is called the independent variable. Thus, any regression model that involves more than one independent variable to a single variable is called multiple regression analysis (Aminu, 1995).

Multiple regression formula is given by:

$Y = \alpha + \beta 1X1 + \beta 2 X2$

The regression equation of this study is expressed as

$FRQ = f(BS, BI, ACI)$ ………………………….. ..(1)

$FRQ = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3$ ……………………………. (2)

$FRQ = \alpha + \beta 1 \beta S + \beta 2 \beta I + \beta 3ACI + \mu 1$ ………… …….(3)

Where:
Y = Quality of financial reporting
X1 = Board size
X2= Board Independence
X3 = Audit committee Independence
U1 = Error term
b1, b2 and b3 = partial derivatives or gradient of the independent variables.

CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The chapter deals with the presentation and analysis of result. The chapter covers the descriptive statistics, correlation analysis and regression analysis with a view to test the hypothesis of this study.

4.2 Descriptive Statistics

The descriptive statistics quantitatively describe the main features of variables of the study. In this analysis, the mean, standard deviation, minimum and the maximum of the variables was considered and presented in the below table.

Table 4.1: Descriptive Statistics

VARIABLES	MEAN	STD. DEV	MIN	MAX
FRQ	4.939947	0.6437762	3.510813	5.999612
BS	8.2	1.735087	5	11
BI	0.85	0.3663475	0	1
ACI	0.4666666	0.0683987	0.333333	0.5

Source: Computed by the Researcher from Annual Reports and Accounts of the sample companies.

The descriptive statistics in table 4.1 above shows the result for the mean, standard deviation, minimum and maximum of the variables of the study. The FRQ shows a mean of 4.94, meaning the average score of the sampled firms is 4.94, the standard deviation of 0.64, minimum of 3.51 and a maximum of 5.99.

The mean of the Board Size depicts an average score of 8.2 for the sampled firms, standard deviation of 1.74, minimum of 5 and maximum of 11 of board members constitute board of the sample firms. Also, the mean score of the Board Independence of the firms is 0.85, standard deviation of 0.37, minimum of 0 and maximum of 1.

Last, the result of the Audit Committee Independence from the table shows an average score of 0.47, standard deviation of 0.07, minimum of 0.33 and a maximum of 0.5

4.3 Correlation Matrix

The correlation matrix shows the relationship between the dependent and independent variables of the study. This is presented in table 4.2.

Table 4.2: Correlation matrix of the Dependent and Independent variables.

VARIABLES	FRQ	BS	BI	ACI
FRQ	1.0000			
BS	-0.0539	1.0000		
BI	0.5454	-0.0331	1.0000	
ACI	0.5639	0.2070	0.8402	1.0000

Source: Computed by the Researcher from Annual Reports and Accounts of the sample companies.

The results from table 4.2 above depicts that FRQ is negatively related to BS at -0.05 while positively related to BI and ACI at 0.55 and 0.56 respectively. The BI is negatively correlated with BS -0.03. Also, the ACI is having a positive relationship with the BS and the BI at 0.21 and 0.84 respectively. From the result above, we can say that all the variables have significant positive relationship with each order, except for the BS that is having a negative relationship with FRQ and the BI.

4.4 Regression Analysis and Test of Hypothesis

The regression analysis is computed in order to test the hypothesis of the study, was presented in table 4.3 along with the value of R-square and Adjusted R-square to explain how the independent variables cause variation in the dependent variable.

Table 4.3: Regression Result

VARIABLES	Coef.	Std. Err.	t	P>|t|
Bs	-.0549498	.0828113	-0.66	0.516
Bi	.2449914	.7075397	0.35	0.734
Aci	4.493425	3.871363	1.16	0.263
Cons	3.085361	1.214954	2.54	0.022
R-squared	0.3532			
Adj R-squared	0.2320			

Source: Computed by the Researcher from Annual Reports and Accounts of the sample companies.

Table 4.3 above presents the industry regression equation which is given by: FRQ= 3.085361, -0.0549498 and 0.2449914. This means that, the 3.085361 is the value of FRQ when the values of each independent variables in the model are zero. It could also be inferred that the regression co-efficient of Board Size (BS) is -0.0549498.

However, Board Independence (BI) and Audit Committee Independence is 0.2449914 and 4.4934250 respectively. R-square of 0.3indicated that 35% of variation in FRQ is explained by the independent variables of the study in the Nigerian Chemical and paint Industry.

4.5 Test of Hypothesis

To test the hypothesis of the study the t- value of the regression analysis was utilized.

4.5.1 Board Size and Financial Reporting Quality
From the regression result in table 4.3, the t-value -0.66 indicate that board size have an insignificant impact in FRQ in the Nigerian Chemical and paint Industry. The null hypothesis which states that board size does not have significant effect on quality of financial reporting in the Nigerian Chemical and paint Industry can not be rejected. This result is not consistent with the findings of Dabor and Adeyemi (2009).

4.5.2 Board Independence and Financial Reporting Quality
Similarly, to test this hypothesis , the t-value of 0.35 as shown in table 4.3 indicate that BI have an insignificant effect on FRQ in the Nigerian Chemical and paint Industry. Therefore, the null hypothesis which states that the board independence does not have significant effect on the quality of financial reporting in the Nigerian Chemical and paint Industry can not be rejected.

4.5.3 Audit Committee independence and Financial Reporting Quality
Finally, the t-value of 1.16 on the regression table indicated that ACI have an insignificant but positive effect on FRQ of firm in the Nigerian Chemical and paint Industry. Similarly, the null hypothesis in this respect can not be rejected.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS
5.1 Summary
This research work was carried out to assess the impact of Corporate Governance on the quality of financial reporting in the Nigerian Chemical and paint Industry. It was informed by the recent accounting scandals, involving corporation such as Enron in the US, HIH insurance in Australia, Parma in Italy and quite a number of banks in Nigeria. This ugly trend appeared to have shaken the confidence of investors and hence the loss of credibility on the annual reports of these companies The researcher relied on the available literature, relevant theory to the study (agency theory), and logical observation of the Nigerian situation to come up with three accounting based factors that might likely determine and explain the behavior of corporate governance mechanisms and quality of financial reporting of quoted companies in the Nigerian Chemical and paint Industry. Accordingly, three (3) hypotheses were developed for the purpose of investigating whether or not, the hypothesized effect of board size, board independence and audit committee independence hold true in the Nigerian Chemical and paint Industry.

The population for this study was made up of all the 8 publicly quoted companies listed on the floor of the Nigerian stock exchange (NSE) under this industry. The sample was selected from this population, using judgment sampling, sampling techniques. The sample size is four companies in order to have sufficient and reliable data for the purpose of this study and the study utilized data from secondary data source which is generated from annual reports and accounts of sampled companies from 2009-2013.The study employed multiple regressions, where the data extracted from the annual report and accounts of the sample companies were used to test the hypotheses that were raised in the study. Stata 11.2 aided the analysis of the data extracted from the annual reports and accounts of the sample companies. The hypotheses testing data interpretation and discussion of result enabled the researcher to discover that; the board independence and audit committee independence are positively related to financial reporting quality as discovered in this industry, and the higher the board independence and audit committee independence, the better responsible policies they make as a strategy toward raising the financial reporting quality in Nigerian Chemical and paint Industry. So also the board size which has no significant impact on the financial reporting quality. It also discovered that Audit Committee independence have Positive effect on financial reporting quality in Nigerian Chemical and paint Industry but with no significant impact on the financial reporting quality.

5.2 Conclusions
Based on the findings, the following conclusions are drawn;

1. Board size has an insignificant effect on the FRQ of firms in the Nigerian Chemical and paint Industry.
2. Board independence also have an insignificant effect on the FRQ of firms in the industry.
3. The presence of non-executive directors in the Audit Committee of firms in the Nigerian Chemical and paint Industry have an insignificant effect on their FRQ.

5.3 Recommendations
Based on the findings of the research, the following recommendation are made:

1. SEC in collaboration with other regulatory agencies should ensure that firms in the Nigerian Chemical and paint Industry have competent and experienced directors on their board.
2. The regulatories should set up a committee to verify the appointment of non-executive directors so that grey directors do not form part of the board of firms in the industry.

3. The non-executive directors should possess the technical skills and experience necessary to ensure that the high quality reporting system exist in the Nigerian Chemical and paint Industry.

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APPENDIX I
RATING OF BOARD SIZE OF THE SAMPLED COMPANIES

	2009	2010	2011	2012	2013
Berger Paints PLC	9	10	10	10	11
DN Mayer PLC	9	9	9	9	8
Premier Paints PLC	5	7	9	9	9
Sandex PLC.	5	6	7	7	6

SOURCE: Generated by researcher from the annual reports and accounts of firms

APPENDIX II
RATING OF BOARD INDEPENDENCE OF THE SAMPLED COMPANIES

	2009	2010	2011	2012	2013
Berger Paints PLC	1	1	1	1	1
DN Mayer PLC	1	1	1	1	1
Premier Paints PLC	1	0	0	0	1
Sandex PLC.	1	1	1	1	1

SOURCE: Generated by researcher from the annual reports and accounts of the sample firms

APPENDIX III
RATING OF AUDIT COMMITTEE INDEPENDENCE OF SAMPLED COMPANIES

	2009	2010	2011	2012	2013
Berger Paints PLC	0.5	0.5	0.5	0.5	0.5
DN Mayer PLC	0.5	0.5	0.5	0.5	0.5
Premier Paints PLC	0.3333	0.3333	0.3333	0.3333	0.5
Sandex PLC.	0.5	0.5	0.5	0.5	0.5

SOURCE: Generated by researcher from the annual reports and accounts of the sample firms

APPENDIX IV
TOTAL ACCRUALS OF THE SAMPLED COMPANIES

	2009	2010	2011	2012	2013
Berger Paints PLC	175,954	232,044	18,875	100,520	60,451
DN Mayer PLC	677,429	999,106	372,844	20,000	272,530
Premier Paints PLC	35,761	92,622	32,42	7,911	31,715
Sandex PLC.	103,309	62,347	146,591	523,947	73,315

SOURCE: Generated by researcher from the annual reports and accounts of the sample firms.

APPENDIX V
LOG OF ACCRUALS

	2009	2010	2011	2012	2013
Berger Paints PLC	5.245399	5.36557	4.275887	5.002252	4.781403
DN Mayer PLC	5.830864	5.999612	5.571527	4.30103	5.435414
Premier Paints PLC	4.55341	4.966714	3.510813	3.898231	4.501265
Sandex PLC.	5.014138	4.794816	5.166107	5.719287	4.865193

SOURCE: Generated by researcher from the annual reports and accounts of the sample firms