Audit Committee Size and Financial Reporting Quality of listed Non-financial Firms in Sub-Saharan Africa: The Moderating Role of Board Independence

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DOI: 10.56201/jafm.v10.no8.2024.pg1.20

Abstract

This study investigates the impact of audit committee size on the financial reporting quality of non-financial firms listed in Sub-Saharan Africa, with a specific focus on the moderating role of board monitoring. Recent corporate scandals have raised concerns about the effectiveness of audit committees and the quality of financial reports, particularly in developing regions like Sub-Saharan Africa. The study aims to address gaps in the literature by providing a comprehensive analysis across multiple countries in the region. The study employs ex post facto research design using a panel data set from 2013 to 2022, encompassing 235 non-financial firms listed on the Nigerian Exchange Group, Johannesburg Stock Exchange, and Nairobi Stock Exchange. Data were collected from annual reports, focusing on variables such as audit committee size, board independence, and financial reporting quality, measured using the Jones Discretionary Accrual Model. The analysis was conducted using GMM techniques to determine the relationships and interactions between the variables. The findings indicate that audit committee size has a positive but statistically insignificant effect on financial reporting quality. Similarly, board independence, both as an independent variable and as a moderator, showed a negative but statistically insignificant relationship with financial reporting quality. These results suggest that increasing the size of audit committees and enhancing board independence alone may not significantly improve financial reporting quality in the studied context. The study highlights the importance of considering the effectiveness and interaction of governance mechanisms rather than focusing solely on their individual attributes. This study contributes to the literature by providing empirical evidence from a region that has been underrepresented in previous research. It emphasizes the need for nuanced governance reforms that consider the interplay between various governance mechanisms. The findings underscore the importance of fostering a culture of active oversight and independence within corporate boards to enhance the effectiveness of audit committees and improve financial reporting quality.

Keywords: *Audit Committee Size, Financial Reporting Quality, Board Monitoring, Corporate Governance, Sub-Saharan Africa*

1.0 Introduction

The quality of financial reports is paramount for the accurate assessment of a company's financial health and performance. Comprehensive auditing ensures the reliability of financial statements, reflecting a true and fair view of a company's operations. Audits serve as a crucial mechanism to verify the accuracy and dependability of financial information, providing unbiased evaluations to stakeholders such as shareholders, tax authorities, and financial institutions. Recent financial scandals have underscored the importance of rigorous audit and governance practices. According to Namakavarani et al. (2021), effective corporate governance is critical for corporate sustainability, as evidenced by the collapse of firms with insufficient or poorly organized governance frameworks.

The audit committee plays a vital role within corporate governance by enhancing the reliability of financial reports and enabling informed decision-making. Recent studies emphasize the impact of audit committee characteristics on audit quality and financial reporting (Haddad, El-Ammari & Abdelfattah, 2021; Harris & Williams, 2020). An effective audit committee, characterized by appropriate expertise, independence, and diversity, can significantly improve the quality of financial reporting (Daryaei & Fattahi, 2020). Board monitoring, particularly through independent directors, is also crucial in overseeing management and ensuring the integrity of financial reporting (Fama & Jensen, 1983). Independent directors are more effective in overseeing management compared to internal board members (Fama, 1980; Fama & Jensen, 1983), and their inclusion strengthens the audit process and enhances financial reporting quality (Blue Ribbon Committee, 1999).

The relationship between audit committee size, board monitoring, and the quality of financial reports is complex and multifaceted. The size of the audit committee, as an independent variable, can influence its effectiveness in monitoring financial reporting processes. Board independence, serving as a moderating variable, interacts with audit committee size to enhance or diminish its impact on financial reporting quality. Empirical studies have shown that diverse and independent audit committees are more likely to ensure the accuracy and reliability of financial reports (Udisifan & Akeem, 2019). This interaction underscores the importance of a well-structured audit committee within the broader context of board governance to maintain high standards of financial reporting.

Despite the recognized importance of audit committees, recent corporate accounting scandals have raised concerns about their effectiveness in ensuring high-quality financial reports. The underperformance of audit committees in Sub-Saharan Africa, as highlighted by Kabiru and Usman (2021), has resulted in poor-quality financial reports, undermining investor confidence and market stability. Previous research has predominantly focused on developed countries, leaving a gap in understanding the dynamics in Sub-Saharan Africa. Studies by Majiyebo et al. (2018) and Kabiru and Usman (2021) have examined various dimensions of audit committees within Nigeria, but there is a lack of comprehensive, region-wide analysis.

The root causes of these problems include insufficient diversity and expertise within audit committees, ineffective monitoring practices, and methodological deficiencies in previous studies. Inconsistent findings regarding the impact of audit committee characteristics on financial reporting quality further complicate the understanding of these relationships (Baxter & Cotter, 2009; Abbott, Parker, & Peters, 2004). To address these gaps, this study aims to

provide a more comprehensive analysis of audit committee effectiveness and board monitoring across multiple Sub-Saharan African countries. By focusing on non-financial firms, the study seeks to uncover insights that have been overlooked in prior research.

This study contributes to the body of knowledge by exploring the contextual variables and measurements relevant to Sub-Saharan Africa, an area that has been underrepresented in previous research. By examining audit committee size, board independence, and their interactions, the study provides empirical evidence on the effectiveness of governance mechanisms in enhancing financial reporting quality. The methodological approach, which includes a broader and more diverse sample over extended periods, offers more robust and generalizable findings. Theoretical contributions include a deeper understanding of the moderating role of board independence, while empirical contributions highlight practical implications for improving audit committee practices and governance structures in the region.

2.0 Concepts and Hypothesis Development

2.1 Quality of financial Report

Financial reporting quality (FRQ) is crucial for assessing a business entity's accountability for its resources and providing a foundation for evaluating managerial performance and making economic decisions. According to Shuraki, Pourheidari, and Azizkhani (2021), FRQ is defined as the precision with which financial reporting provides useful information about a firm's performance and expected cash flows for investor decisions. This aligns with the Financial Accounting Standards Board (FASB) Conceptual Framework, which emphasizes informing investors to facilitate rational investment decisions and evaluate a company's expected cash flows. High-quality financial reports serve as a control mechanism that disciplines managers and aligns their actions with shareholders' interests, thereby improving overall company performance (Bushman, Piotroski, & Smith, 2004). Reliability and freedom from errors are key aspects of FRQ, ensuring that financial information is not only accurate but also free from misstatements and unethical practices. As Pounder (2013) suggests, the value of financial reporting is inherently tied to its quality, implying that high-quality financial reports provide a more reliable communication of a company's economic reality. This concept extends to the role of financial reports in providing true and fair information about a firm's underlying performance and financial position, as highlighted by Elbannan (2021). Furthermore, Jonas and Blanchet (2000) define high-quality financial reporting as full and transparent financial information that does not mislead users. Therefore, in this study, financial reporting quality is defined as the extent to which financial reports provide precise, reliable, and transparent information about a firm's performance and financial position, facilitating informed decision-making for investors and other stakeholders.

Financial reporting quality is a multidimensional concept, with no single measure serving as a comprehensive proxy. Researchers often use earnings attributes to measure FRQ, including discretionary accruals quality, earnings persistence, predictability, value relevance, timeliness, and conservatism (Li & Wang, 2010). This multidimensional nature complicates the operationalization and measurement of FRQ, as different user groups may perceive the quality of financial reports differently based on their specific contexts and preferences (Dechow & Dichev, 2002; Schipper & Vincent, 2003). Traditional measures of FRQ often focus on indirect

proxies, such as earnings management, financial restatements, and timeliness, which are believed to influence the overall quality of financial reports (Schipper & Vincent, 2003). Accrual-based and value relevance models are commonly used to assess financial reporting quality. Accrual models, for instance, measure the extent of earnings management by focusing on discretionary accruals, which managers can control to manipulate earnings (Healy & Wahlen, 1999). While these models provide insights into earnings quality, they also face challenges in distinguishing between discretionary and non-discretionary accruals, making it difficult to draw definitive conclusions about FRQ. Value relevance models, on the other hand, assess the quality of financial reporting by examining the correlation between accounting figures and stock market reactions (Barth et al., 2001). Despite providing valuable information on earnings persistence and predictive ability, these models may not fully capture the quality of financial reporting due to potential inefficiencies in stock markets (Nichols & Wahlen, 2004).

Accrual-based models are a prevalent method for measuring financial reporting quality, focusing on the extent to which managers use discretionary accruals to manage earnings. These models operate on the premise that earnings management, through discretionary accruals, negatively impacts the quality of financial reporting by reducing its decision usefulness (Healy & Wahlen, 1999). The primary advantage of these models is their reliance on information readily available in annual reports, allowing for the examination of company characteristics and their influence on earnings management (Healy & Wahlen, 1999). However, a significant challenge lies in distinguishing between discretionary and non-discretionary accruals, which complicates the interpretation of results. Despite their limitations, accrual-based models provide a useful, albeit indirect, measure of earnings quality and, by extension, financial reporting quality. They highlight the role of managerial discretion in financial reporting and its potential impact on the reliability and usefulness of financial information (Brown, 1999; Van Tendeloo & Vanstraelen, 2005). However, because these models do not account for non-financial information, they offer a limited view of overall financial reporting quality. Thus, conclusions drawn from accrual-based models need to be interpreted cautiously and supplemented with other measures to provide a comprehensive understanding of financial reporting quality. In this study, the accrual-based model is used as one of the proxies to assess the quality of financial reporting, focusing on the impact of discretionary accruals and earnings management on the reliability and decision-usefulness of financial information.

2.2 Audit Committee Size

The size of an audit committee is a critical determinant of the resources available for fulfilling its oversight responsibilities. According to Bala (2014), the Companies and Allied Matters Act (CAMA) in Nigeria mandates a maximum of six members for audit committees in public companies, comprising three shareholders and three directors. Temple, Ofurum, and Egbe (2016) define the size of the audit committee as the total number of members selected by governing bodies. An appropriately sized audit committee can effectively identify and resolve issues arising from financial reporting duties, as a larger committee increases available resources and control capabilities. Research indicates that the size of the audit committee positively influences company transparency and overall governance (Majiyebo et al., 2018). The selection of audit committee members requires careful consideration to ensure efficiency and avoid potential agency conflicts stemming from committee incompetence (Pugliese, Minichilli & Zattoni, 2014).

A substantial audit committee size is necessary due to the complexity and breadth of the committee's responsibilities, which require ample resources for effective performance (Sri & Sylvia, 2016). A larger audit committee enhances efficacy by providing sufficient resources to address organizational challenges. DeZoort et al. (2002) emphasize that a larger committee fosters substantive debate, considers emerging issues, and provides access to management and auditors. Mohammad-Nor et al. (2010) further suggest that larger audit committees are more adept at detecting and rectifying financial reporting errors. However, Sri and Sylvia (2016) caution against overly large committees, which can become unmanageable and less effective. The audit committee's size must balance the benefits of additional members against potential communication and coordination difficulties (Ilaboya & Iyafekhe, 2014). An optimal size allows for effective oversight while maintaining efficient communication and decision-making processes.

The number of members in an audit committee should be sufficient to handle its responsibilities effectively. Enofe et al. (2013) argue that a balanced audit committee, with equal representation of directors and shareholders, can effectively oversee executive directors' accounting and financial reporting powers and enhance auditor independence. According to Anderson et al. (2012), increasing the committee's size enhances its supervisory capabilities. Orji and Ikueze (2018) found that smaller committees improve business monitoring and control, whereas Aryan (2015) noted that larger committees dedicate significant time and resources to monitoring financial reporting practices and internal controls. Commonly, audit committees range from three to five members, occasionally extending to seven (Alleyne et al., 2006; Beasley et al., 2009). An optimal size is crucial for effective corporate reporting, as it enriches deliberations with diverse perspectives and expedites the external audit process. However, overly large committees face challenges such as free riders and coordination difficulties, indicating that a modest size is preferable. For this study, audit committee size is defined as the total number of members serving on the audit committee during a specific accounting period, considering the balance needed to ensure effective oversight and resource availability.

2.3 Board Monitoring

Board monitoring refers to the corporate governance mechanism wherein the board of directors oversees and controls the management of an organization. According to Harford (2012), this role includes ensuring that the management acts in the best interests of the shareholders. The board of directors, appointed by the shareholders, governs the company and protects investors' rights. Corporate governance, as defined by Shleifer and Vishny (1997), encompasses mechanisms ensuring that business finance providers receive a return on their investment. The OECD (1999) further elaborates that corporate governance involves internal mechanisms for operating and controlling corporations, distributing rights and responsibilities among stakeholders, and establishing rules and procedures for decision-making on corporate affairs.

Corporate governance is often linked to agency theory, which views the management of the firm as agents of the shareholders whose actions may not always align with shareholders' expectations (Nura'ini, 2013). It is a platform that sets company objectives, provides the means to achieve these objectives, and monitors performance (Shahwan & Habib, 2020; Uche, 2004; Akinsulire, 2006). Corporate governance impacts the performance and reliability of financial reports, influencing both accounting data and the market value of companies. Teen (2006)

describes corporate governance as a resource that improves shareholder value beyond mere compliance with laws and standards, emphasizing principles like fairness, transparency, accountability, and responsibility (Ghoniyah & Hartono, 2014).

The concept of corporate governance is grounded in agency theory, which originated in the 1930s with Berle and Means' exploration of corporate revolution (Hassan, 2011). Agency theory highlights the need for monitoring mechanisms to reduce agency costs and prevent conflicts of interest between managers and shareholders. A corporate board, as the highest executive body, is responsible for guiding and monitoring business activities and corporate affairs on behalf of shareholders (Jensen & Meckling, 1976). By appointing directors to boards, shareholders aim to minimize agency problems, ensuring that governance structures are in place to enhance value and reduce the likelihood of poor financial reporting quality (Tornyeva & Wereko, 2012). In this study, board monitoring is defined as the board of directors' responsibility to oversee management and ensure corporate governance mechanisms are effective in protecting shareholders' interests and enhancing corporate value.

2.4 Theoretical Foundation

The primary theory relevant to this study is the agency theory, which addresses the conflicts of interest between principals (shareholders) and agents (managers). Proposed by Jensen and Meckling (1976), the theory assumes that managers, as agents, may not always act in the best interests of the shareholders due to differing goals and information asymmetry. The principal-agent problem arises because managers may prioritize personal gains over shareholder value, leading to agency costs. This theory underscores the need for robust corporate governance mechanisms, such as an effective board of directors and audit committees, to monitor management and align their interests with those of the shareholders. The agency theory suggests that proper monitoring, including audit committee size and board independence, can mitigate these conflicts and enhance the quality of financial reporting (Jensen & Meckling, 1976).

Despite its widespread application, agency theory has limitations. One significant weakness is its assumption that all parties are rational and primarily motivated by self-interest, which may not always reflect real-world behaviors. Additionally, the theory does not adequately account for the complexities of human behavior and the potential for intrinsic motivations beyond financial gain. Another limitation is its focus on the principal-agent relationship, often overlooking other stakeholders such as employees and customers. In the context of this study, agency theory helps explain how audit committee size and board monitoring can influence the quality of financial reports. By ensuring effective oversight and reducing managerial discretion, larger and more independent audit committees can improve financial reporting accuracy and reliability, thereby protecting shareholders' interests (Fama & Jensen, 1983; Tornyeva & Wereko, 2012).

2.5 Hypotheses Development

Limited studies exist on the relationship between audit committee size and financial reporting quality. Aderemi, Osarumwense, Kehinde, and Ben-Caleb (2016) in Nigeria examined the role

of audit committee size in preventing earnings management among publicly traded firms. Their study, spanning various sectors, concluded that larger audit committees are more effective in overseeing financial reporting processes. Similarly, Mohd Naimi et al. (2010) found in Malaysia that firms with larger audit committees tend to deliver audit reports more promptly, suggesting improved financial reporting quality. Conversely, Alqatamin (2018) discovered that larger audit committees might lose focus, with smaller committees in Jordan producing higher-quality financial reports. Umobong and Ibanichuka (2017) analyzed the effect of audit committee attributes on financial reporting quality in Nigerian food and beverage industries and found a negative and insignificant association between audit committee size and financial reporting quality. Aderemi et al. (2016) similarly noted a negative and negligible effect of audit committee size on financial reporting quality in Nigerian publicly traded companies. Ojeka, Iyoha, and Asaolu (2015) also demonstrated that a larger audit committee size could detrimentally impact financial reporting quality. In contrast, Toh (2013) found a positive but insignificant link between audit committee size and financial reporting quality in Singapore. Kusnadi, Leong, Suwardy, and Wang (2015) showed a negative and insignificant correlation in Singapore, whereas Madawaki and Amran (2014) revealed a positive but insignificant association in Malaysia. Orjinta and Ikueze (2018) found no significant link between firm size and audit delay. Al-Ghanem and Hegazy (2011) observed a negative correlation between company size and audit delays in Kuwait. Ozoanigbo, Orjinta, and Ofor (2016) reported that audit committee size affects the financial reporting quality of Nigerian enterprises. Based on these mixed results, the following hypothesis is proposed:

H1: Audit committee size has no significant effect on the financial reporting quality of listed firms in Sub-Saharan Africa.

Research on the impact of board monitoring on financial reporting quality has produced varied results. Inside directors are company employees, while outside directors, though not current employees, might have past associations with the company. Independent directors, having no material relationship with the company, are essential for unbiased decision-making (Manawaduge, 2012). Jha (2017) highlighted the necessity of non-executive directors on boards following corporate scandals such as Enron and WorldCom. The Cadbury (1992) report and the Sarbanes-Oxley Act (2002) have emphasized increasing the number of independent directors to prevent corporate collapses (Fernando, Li, & Hou, 2019; Platt & Platt, 2012). Fama and Jensen (1983b) posited that outside directors help safeguard shareholders' interests by providing effective oversight. Xie, Davidson, and DaDalt (2003) found a significant negative relationship between the percentage of outside directors and earnings management activities, suggesting that more independent directors enhance financial reporting quality. Beasley (1996) indicated that a higher number of independent directors significantly reduces financial statement fraud. However, Li and Ang (2000) found that outside directors do not significantly change the board's performance in monitoring management activities. Sadique (2016) reported similar findings in Malaysia, where board independence did not significantly contribute to fraud deterrence. Hewa Wellalage (2012) and Thrikawala (2016) found no statistically significant relationship between non-executive directors and financial performance in Sri Lankan microfinance institutions. Razali and Arshad (2014) argued that independent directors can effectively debate and challenge executive decisions, helping prevent fraud. Uzun et al. (2004) demonstrated that higher levels of board independence correlate with reduced corporate

fraud. These mixed findings suggest the need for further research on the impact of board monitoring on financial reporting quality. Therefore, the following hypothesis is proposed:

H2: Board monitoring has no significant effect on the financial reporting quality of listed firms in Sub-Saharan Africa.

Limited studies exist on the interaction between audit committee size and board monitoring in relation to financial reporting quality. Researchers suggest that effective oversight requires a balance between the number of audit committee members and the independence of board members. For instance, Aderemi et al. (2016) and Mohd Naimi et al. (2010) found that larger audit committees enhance oversight, but Alqatamin (2018) and Umobong and Ibanichuka (2017) argue that too many members might reduce focus. Similarly, board independence, as highlighted by Fama and Jensen (1983b) and Xie, Davidson, and DaDalt (2003), is crucial for effective monitoring, though Li and Ang (2000) and Sadique (2016) suggest its impact might be limited. Combining these insights, it is hypothesized that the interaction between audit committee size and board monitoring could either enhance or detract from financial reporting quality, depending on the balance achieved. Thus, the following hypothesis is proposed:

H3: There is no significant interaction between audit committee size and board monitoring in affecting the financial reporting quality of listed firms in Sub-Saharan Africa.

3.0 Data and Method

The study's population encompasses all listed non-finance companies in Nigeria, South Africa, and Kenya. As of December 2022, there were 109 non-finance companies listed on the Nigerian Exchange Group (NGX), 243 on the Johannesburg Stock Exchange (JSE), and 45 on the Nairobi Stock Exchange (NSE). This brings the total population to 397 non-finance firms across these three countries. To ensure a comprehensive analysis, the study covers the period from 2013 to 2022, allowing for a detailed investigation of the trends and dynamics over a significant timeframe. The sampling technique employed in this study involves a straightforward filtering process based on specific selection criteria. The criteria are limited to companies listed on the NGX, JSE, and NSE from 2013 to 2022 that have publicly accessible annual financial reports. Companies that operate subsidiaries in Nigeria, South Africa, and Kenya but are not listed on the relevant stock exchanges, as well as recently listed and delisted firms, will be excluded. This approach ensures that only non-financial companies with complete and continuous data are included in the sample. Consequently, the final sample size comprises 75 non-finance companies from Nigeria, 135 from South Africa, and 25 from Kenya, totaling 235 non-finance firms. Secondary data will be utilized for this study, sourced from the annual reports of the listed firms from 2013 to 2022. This approach is justified by the reliability and comprehensiveness of secondary data, as highlighted by Jayeola, Agbatogun, and Akinrinlola (2017). The data collected will encompass various financial and governance-related variables necessary to test the study's hypotheses and achieve its objectives. In order to test the hypotheses formulated in the study and to achieve the objectives of the research, the study adopted and modified the model of Umobong and Ibanichuka, (2017). Hence, the econometric model of the study is expressed as;

$$FRQT_{it} = \beta_0 + \beta_1 AUCS_{it} + \beta_2 BODI_{it} + \beta_2 (BODI\ X\ AUCS)_{it} + \beta_3 CFOA_{it} + \mu_{it}\ .$$

Where:

FRQT	=	Financial Reporting Quality
AUCS	=	Audit Committee Size
BODI	=	Board Independence
CFOA	=	Cashflow from Operations
β_1- β_3	=	Slope Coefficient
μ	=	Stochastic disturbance
i	=	i^{th} firm
t	=	time period

4.0 Results and Discussion

In order to achieve the objectives of this study, the pool least square regression was conducted before proceeding to check for inconsistencies with the basic assumptions of the OLS regression. Succinctly, these diagnostics tests include test for multicollinearity as well as test for heteroscedasticity. The researcher also performs preliminary pre-regression analysis such as descriptive statistics and correlation matrix.

4.1 Descriptive Analysis

In this section, the researcher examines the descriptive statistics for both the explanatory or independent and dependent variables of interest. Each variable is examined based on the mean, standard deviation, maximum and minimum. Table 4.1 below displays the descriptive statistics for the study.

Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
frqt	2350	-.392	2.833	-51.15	83.81
aucs	2350	4.807	1.634	2	16
bodi	2350	71.494	12.566	16.67	100
cfoa	2350	.065	.396	-17.98	1.48

Source: Authors Computation (2024)

The result from the descriptive statistics presented in table 4.1 shows that the mean financial report quality (FRQT) of -0.392 suggests on average, a slight negative discretionary accrual, indicating that firms tend to slightly underestimate their performance thus impairing their financial report quality. However, the wide standard deviation of 2.833 indicates considerable variability in financial reporting quality across firms, highlighting potential discrepancies in transparency and reliability. In the case of the independent variables, the result shows that the mean of audit committee size (AUCS) is 4.807 indicates a moderate to large audit committee size on average. This suggests that firms recognize the importance of diverse perspectives and expertise in their audit committees, which can enhance the effectiveness of financial oversight. However, the minimum value of 2 implies instances where firms may have inadequately sized audit committees, potentially compromising their ability to ensure accurate financial reporting. Moreover, the mean board independence (BODI) as the measure of board monitoring of 71.494

indicates a high level of board independence on average. This suggests that boards of directors are generally capable of making impartial decisions, which is crucial for effective corporate governance since they are independent. However, the wide standard deviation suggests variability in board independence levels across firms, highlighting the need for consistent adherence to independence principles throughout the region. In the case of the control variable, the result shows that the mean of cashflow from operations (CFOA) ratio of 0.065 implies a generally positive cashflow from operations, indicating firms' ability to generate operational cash to sustain their business activities. However, the wide standard deviation suggests significant variability in cashflow performance, which could reflect diverse economic conditions and operational challenges across firms in Sub-Saharan Africa.

4.2 Correlation Analysis

In examining the association among the variables, the study employs the Pearson Correlation Coefficient (correlation matrix), and the results are presented in the table below.

Table 4.2: Correlation Analyses

Variables	(1)	(2)	(3)	(4)
(1) frqt	1.000			
(2) aucs	-0.041	1.000		
(3) bodi	-0.062	0.014	1.000	
(4) cfoa	0.334	0.023	-0.013	1.000

Source: Authors Computation (2024)

In the case of the correlation between audit committee size, board independence and financial report quality, the above results show that there exists a negative association between the independent variable of audit committee size (-0.041) and the dependent variable of financial report quality when measured in terms of Jones Discretionary Accrual during the period under study. The result also shows that the moderating variable of board independence (-0.062) is negatively associated with the dependent variable of financial report quality when measured in terms of Jones Discretionary Accrual during the period under study. Finally, in the case of the control variable, the result shows that that there exists a positive association between cashflow from operations (0.334) and the dependent variable of financial report quality when measured in terms of Jones Discretionary Accrual during the period under study. But, to test our hypotheses a regression results will be needed since correlation test does not capture cause-effect relationship.

4.3 Regression Analyses

Specifically, to examine the cause-effect relationships between the dependent variables and independent variables as well as to test the formulated hypotheses, the study used a panel dynamic regression analysis since the result reveal the presence of heteroscedasticity and endogeneity across.

Variables	(1) OLS-FRQT	(2) GMM I-FRQT	(3) GMM II-FRQT	(4) AUCSBODI
aucs	-0.066	0.008	0.011	-0.273
	(0.054)	(0.837)	(0.236)	(0.119)
bodi	-0.010**	-0.002	-0.002	-0.024

	(0.024)	(0.661)	(0.262)	(0.054)**
cfoa	2.401***	3.487***	3.421***	2.398***
	(0.000)	(0.000)	(0.000)	(0.000)
L.frqt		0.499***	0.499***	
		(0.000)	(0.000)	
aucsbodi				0.003
				(0.228)
Intercept	0.973***	-0.597	-0.547***	1.958**
	(0.009)	(0.187)	(0.000)	(0.029)
Observations	2350	1878	1878	2350
R^2	0.121			0.121
F-stat	64.13{0.000}	1940.12{0.000}	816173.26{0.000}	53.94{0.000}
VIF	1.04			
Hettes:	368.76{0.0000}			
endo:	1{0.000}			
Sargen Test			chi2: 1.39{0.322}	

Source: Authors Computation (2024)

The table above represents the results obtained from the estimation of the models of this study. The results show that the dependent variable of financial report quality has an R-Square value of 0.121 when measured in terms of Jones Discretionary Accrual. This implies that the independent and control variables of the study could explain about 12% of the systematic change in the dependent variable of financial report quality when measured in terms of Jones Discretionary Accrual. However, the unexplained part of the changes in financial report quality has been captured by the error term. The result of the F-statistics of the pool OLS regression model for the sample non-financial firms in Sub-Sahara Africa with the associated p-value of 0.000 indicates that the pool OLS regression model on the overall is statistically fit at 1% level of significance and can be employed for statistical inferences. However, to further validate the estimates of the pool OLS results for the combined regression results, this study also tests for multicollinearity, heteroscedasticity, and endogeneity. In the present analysis, the mean VIF of the model is reported as 1.04. This value is well below the commonly accepted threshold of 10, as suggested by Gujurati (2004) and other statistical guidelines. A mean VIF below 10 indicates that multicollinearity is not a significant concern in the model under consideration. Specifically, the mean VIF being within the benchmark of 10 suggests that the independent variables included in the regressions are not highly correlated with each other. Consequently, there is no evidence to suggest that multicollinearity is distorting the estimation of coefficients or compromising the validity of the regression results. In the context of the study, the assumption of homoscedasticity is tested using the Breusch-Pagan module in Stata 14. This test assesses whether there is evidence of heteroscedasticity in the errors of the OLS regression model. The significant p-values obtained, particularly on the variable representing financial report quality, indicate that the assumption of homoscedasticity has been violated. This suggests that the variability of errors is not consistent across different levels of total assets, potentially compromising the reliability of the standard errors and, consequently, the accuracy of the regression estimates. In response to this violation, the study opts to re-specify the model to address the issue of heteroscedasticity. One recommended approach to mitigate heteroscedasticity in panel data analysis is to employ panel dynamic regression, as advocated by Greene (2003). This study test for the endogeneity by generating the error term, and then

regressing the error term against the dependent variables only and the results return a 1% significant level indicting the violation of the endogeneity assumption which also implies that there is a strong correlation between the error terms and the dependent variables. In lieu of conventional methodologies, the study implemented a sophisticated technique of dynamic panel data estimation by means of the two-step system GMM with robust standard errors to control for the endogeneity bias in the results. The GMM employed in this study addresses various statistical concerns, including the temporal correlation of errors, heteroscedasticity across firms, simultaneity, and measurement errors.

4.4 Discussion of Findings

The study's findings regarding the effect of audit committee size on the financial report quality of listed non-financial firms, as measured by Jones Discretionary Accrual, reveal a notable but statistically insignificant relationship. Specifically, the results indicate a positive but insignificant effect at the 5% level, suggesting that changes in audit committee size do not significantly influence financial report quality within the studied context. This implies that despite potential benefits associated with larger audit committees, such as diverse perspectives and expertise, the impact on financial report quality may not be substantial or detectable within the scope of the investigation. The findings negate the studies of Hasan, Aly, and Hussainey (2022) highlight the complexities surrounding the relationship between audit committee characteristics and financial reporting outcomes, emphasizing the need for nuanced analysis and consideration of contextual factors. Similarly, Lara, Penalva, and Scapin (2022) and Hewage and Amarasekara (2022) underscore the importance of examining the effectiveness of governance structures in different organizational contexts to understand their impact on financial reporting quality accurately.

Moreover, the findings resonate with the conclusions drawn by Al-Matari (2022) and Agyei-Mensah (2022), who emphasize the multifaceted nature of corporate governance and the challenges in isolating the effects of specific governance attributes on financial reporting outcomes. Additionally, Ehigie and Isenmilia (2022) and Ofor, Orjinta, and Maya (2022) highlight the role of contextual factors, such as regulatory environment and industry dynamics, in shaping the relationship between governance characteristics and financial reporting quality. The implications of the finding extend beyond the immediate scope of the study to encompass broader considerations for corporate governance practices and regulatory frameworks. The insignificant effect of audit committee size on financial report quality underscores the need for a nuanced approach to governance reforms, focusing on the effectiveness rather than the mere size of governance structures. Moreover, the findings underscore the importance of considering contextual factors and industry-specific dynamics in evaluating the impact of governance mechanisms on financial reporting outcomes.

The findings pertaining to the effect of board independence on the financial report quality of listed non-financial firms, as measured by Jones Discretionary Accrual, reveal a negative but statistically insignificant relationship. The result suggests that changes in the proportion of independent directors relative to the total directors within the board do not significantly impact financial report quality during the period under investigation. This implies that while board independence is often advocated as a cornerstone of effective corporate governance, its presence alone may not be sufficient to ensure higher standards of financial reporting within the studied context. This is against the studies of Lara, Penalva, and Scapin (2022) who

underscore the positive impact of board independence on governance effectiveness and financial reporting quality, suggesting a potential positive relationship between independence and corporate performance outcomes.

Similarly, Hewage and Amarasekara (2022) and Al-Matari (2022) emphasize the role of independent directors in enhancing board oversight and accountability, thereby implying a potential positive impact on financial report quality. However, the observed insignificance of board independence in influencing financial report quality contradicts the findings of Agyei-Mensah (2022), Ehigie and Isenmilia (2022), and Ofor, Orjinta, and Maya (2022), who suggest a significant positive relationship between board independence and governance effectiveness. Moreover, these studies underscore the importance of independent oversight in mitigating agency conflicts and ensuring the integrity of financial disclosures, hinting at a potential positive impact on financial reporting quality. The implications of the finding extend beyond the immediate scope of the study to encompass broader considerations for corporate governance practices and regulatory frameworks. The insignificance of board independence underscores the need for a more nuanced approach to governance reforms, emphasizing not only independence but also the effectiveness and collaboration of governance structures. Moreover, the findings underscore the importance of considering contextual factors, such as industry dynamics and regulatory environment, in evaluating the impact of governance mechanisms on financial reporting outcomes.

The study also reveals a positive but insignificant moderating effect of board independence on the relationship between committee size and financial reporting quality. This suggests that while board independence may enhance the effectiveness of audit committees to some extent, its impact on financial reporting quality is not statistically significant in the context of the studied firms. This finding contradicts the assertions of Agyei-Mensah (2022), Ehigie and Isenmilia (2022), and Ofor, Orjinta, and Maya (2022), who suggest a more significant role for board independence in moderating the relationship between audit committee effectiveness and financial reporting outcomes. The implications of these findings extend beyond the immediate scope of the study to encompass broader considerations for corporate governance practices and regulatory frameworks. The significant moderating effect of board independence on the relationship between audit committee diligence and financial reporting quality underscores the importance of fostering a culture of independence and oversight within corporate boards, particularly in enhancing the effectiveness of audit committees. However, the insignificant moderating effects observed in relation to audit committee size and financial expertise highlight the need for a more nuanced understanding of governance dynamics and their impact on financial reporting outcomes.

5.0 Conclusion and Recommendation

Audits are conducted to verify the accuracy and reliability of financial information in financial reports. They also provide an unbiased evaluation of management performance to shareholders, tax authorities, and financial institutions. The recent financial scandals of Enron and WorldCom have prompted investors and other stakeholders to thoroughly examine allegations regarding the quality of audits and governance procedures. The involvement of the Big 4 audit firms (Deloitte, Ernst & Young, KPMG, and Price Waterhouse Coopers) in the scandals has necessitated a more thorough scrutiny of financial reporting practices. Stockholders concur that

effective corporate governance is imperative for the sustained viability of corporations. Resilient corporate governance is expected to enhance public trust in companies' operations by improving their transparency to external stakeholders. An effective corporate governance mechanism incorporates audit committees, which have been demonstrated to have a crucial impact on improving corporate governance performance by generating reliable financial reports that enable users to make optimal decisions.

The findings of this study shed light on the intricate relationship between corporate governance mechanisms and financial reporting quality within listed non-financial firms in Sub-Saharan Africa. Through a comprehensive analysis of audit committee size and the interactions with board independence, the study provides valuable insights into the factors influencing financial reporting outcomes in the region. The study finds that audit committee size may have some influence on financial reporting quality, the effects are not statistically significant. This suggests that simply increasing the size of the audit committee or enhancing its financial expertise may not necessarily translate into tangible improvements in financial reporting outcomes within the studied context. Furthermore, the study highlights the crucial role of board independence as a moderator in shaping the relationship between audit committee effectiveness and financial reporting quality. The moderating effects of board independence on audit committee size is found to be insignificant. Overall, the findings underscore the importance of fostering a culture of active oversight and independence within corporate boards, particularly in enhancing the effectiveness of audit committees. Moreover, the study emphasizes the need for a nuanced approach to governance reforms, recognizing the interplay between different governance mechanisms and their collective impact on financial reporting practices. Furthermore, the study emphasizes the critical role of board independence in enhancing governance effectiveness and financial reporting quality. It recommends promoting the appointment of independent directors to corporate boards to strengthen oversight and decision-making processes. Implementing mechanisms to safeguard the independence of board members, such as ensuring a majority of independent directors and limiting potential conflicts of interest, is also essential. Regular evaluations of board composition and effectiveness can help identify areas for improvement and ensure alignment with best practices in corporate governance.

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