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The Impact of Financial Literacy and Frequency of Meetings of Members of Audit Committe on Financial Reporting Quality in Nigerian Quoted Companies

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Abstract
The main objective of this study was to evaluate the impact of Financial Literacy (FL) and Frequency of Meetings(FM) of members of Audit Committee on financial reporting quality in Nigerian quoted companies. Data for the study were derived from annual reports of one hundred and thirty one (131) companies quoted on the Nigerian Stock Exchange over the period of 2006 to 2012. The data were analyzed using descriptive, correlation and Ordinary Least Square (OLS). The multivariate regression technique was utilized to estimate our model. The findings showed that audit committee financial literacy and audit committee frequency of meetings had a positive significant influence on financial reporting quality. Based on these findings, some recommendations were made, prominent amongst them, was that, in order to strengthen the impact of financial literacy on financial reporting quality, regulatory authorities such as SEC, CBN and NDIC, should give special attention to audit committee members with high status with a view to making it mandatory for all companies to comply with it. Status, in this context, implies an aspect of personal power reflecting the ability to influence outcomes based on perceived skills, qualities and personal attributes.

1. Introduction

The major publicized cases of corporate financial frauds, accounting improprieties, scandals and failures in companies such as Cadbury Nigeria Plc in 2006, Afribank Nigeria Plc in 2009 and Intercontinental Bank Plc in 2009 have raised doubts about the credibility of the financial reporting quality of quoted companies in Nigeria. Issues of corporate insolvency in the financial sector immediately after the publication of unqualified financial statements by directors have recently attracted a lot of concern as to the real duties of directors and auditors. These developments have focused attention on the quality of reported financial statements and encouraged regulators and researchers to seek ways of improving the integrity and quality of the financial reporting process.

The Audit Committee (AC) is a central element of one of such reforms that can enhance the quality of financial reporting through an open and candid communication and a good working relationship with a company's board of directors, internal auditors and external auditors (Mustafa, 2012). Undeniably, the existence of an appropriately constituted audit committee is now a necessity for all listed companies in the United Kingdom and United States (The UK Corporate Governance Code, 2010; Sarbanes-Oxley, 2002) with corporate governance regulation placing significant importance on the role of AC. In Nigeria, the Security and Exchange Commission (SEC) issued a code of Best Practices of Corporate Governance in S.11(a), which provides for the establishment of an audit committee in public companies in Nigeria. Therefore, there is a profound need to explore the features of an audit committee in the Nigerian context, the changing nature of its attributes and association of these attributes with the financial reporting process.

In Nigeria, the creation and establishment of an audit committee is made mandatory by the Companies and Allied Matters Act (CAMA) of 2004. Section 359 (3) states, inter alia "The auditor shall in the case of a public company also make a report to an audit committee which shall be established by the public company". According to CAMA Section359 (4), the make-up of the audit committee "shall consist of an equal number of directors and representatives of the shareholders of the company (subject to a maximum number of six members). The members are not entitled to any remuneration and shall be subject to re-election annually".

Besides the make-up of an audit committee, two attributes were adopted in this study to measure its impact on the financial reporting quality. They are: **audit committee financial literacy** and **audit committee frequency of meetings.** As a result of mixed

results associated with prior studies in developed countries, the aforementioned attributes were adopted with a view to finding out what the results would be if this study is carried out in Nigeria.

A small number of studies existing in this area of research are output of developed countries which do not have similar regulative framework and government mechanisms to those of Nigeria. A few of them are the studies of Zhang and Zhou(2007), Bedard, Chtourou and Courtteay (2004), Defond, Hann and Hu (2005), Lin, Li and Yang (2006) and Yang and Krishnan(2005) whose results were mixed. For example, Zhang and Zhou(2007) used the number of meetings to measure whether the frequency influences financial reporting quality and they found a positive correlation while Bedard, Chtourou and Courtteay (2004) did not find any positive association between the frequency of audit committee meetings and quality of financial reporting. Defond, Hann and Hu (2005) found a positive relationship between financial literacy and financial reporting quality while Lin, Li and Yang (2006) and Yang and Krishnan (2005) did not find any significant association among accounting, financial experts and financial reporting quality. Besides, these studies documented inconclusive evidence which call for an investigation into the Nigerian scenario. This provides the justification and impetus for this study. The rest of this paper is structured as follows: Section 2 discusses the literature review and hypotheses development, Section 3 looks at the methodology, Section 4 focuses on the data presentation and analysis of results while Section 5 addresses conclusion and recommendations.

1.1 Objectives of the Study

The broad objective of the study was to determine the impact of Financial Literacy and Frequency of Meetings of members of Audit Committee on financial reporting quality. The specific objectives were to:

i.   ascertain the effect of financial literacy of audit committee members on financial reporting quality in Nigerian companies ;

ii.   determine the influence of frequency of audit committee meetings on financial reporting quality in Nigerian companies.

2. Literature Review and Hypotheses Development

Concept of Financial Reporting Quality

S.334 (2) of CAMA 2004 spelt out among others two basic financial statements, namely Statement of Financial Position and Statement of Comprehensive Income. Also relevant are: Statement of Changes in Equity and Statement of Cash Flow. It is on the basis of the aforementioned statements that stakeholders are expected to make informed economic decisions. Financial statements can be adequately relied upon by their users where structure of review and authorization are put in place to enhance the integrity of such report (Okpala, 2012). The Institute of Chartered Accountants of Nigeria (ICAN) stated that the structure should include a process that ensures the independence and competence of the external auditors and the audit committee that reviews and considers the financial statements, to enable the provision of confidence, reduction in uncertainty and risk and addition to value. The reliability and credibility of financial reports lie squarely on the shoulders of the board and its audit committee whose duty it is to ensure that internal control measures; accounting policies; and external auditors are in place in order to assure that financial statements are free from fraud. This becomes necessary given the fact that there are proofs to indicate that the quality of financial reports has diminished over time (Lev & Zarowin, 1999).

In order to ensure high quality financial reporting, the International Accounting Standards Board (IASB) identified in its framework for the preparation and presentation of financial statements four principal qualitative characteristics, namely understandability, relevance, reliability and comparability.

Users of financial statements include creditors, suppliers, customers, shareholders, lenders, employees, government agencies. These users have varying information needs .The quality of financial statements is of relevance to the needs for making reliable and informed decisions. Financial reporting embodies two types of information, namely quantitative and non-quantifiable information. Both types of information are of immense importance to users of financial statements for decision making. It is to be noted that financial reporting quality and quality of financial reporting are used interchangeably.

Several definitions of the term, financial reporting quality, have been expressed. For instance, financial reporting quality is defined as the exact manner by which it shows information as regards a business activity as it relates to its anticipated cash flows, with the aim of informing shareholders about a company's operations (Verdi, 2006). Tang

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Chen and Zhijun (2008) defined financial reporting quality as the degree to which financial statements provide us with information that is fair and authentic about the financial position and performance of an enterprise. However, a commonly accepted definition is provided by Jonas and Blaurchet (2000) who asserted that quality of financial reporting is complete and unambiguous information that is not designed to misinform users. IASB (2006, 2008) opined that "the objective of financial reporting is to provide financial information about the reporting entity that is useful to present to potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers"(p.5).

Compliance with the objectives and qualitative attributes of financial reporting information as stated by the International Accounting Standard Board (IASB,2006) will no doubt enhance financial reporting quality. The basic qualitative attributes of financial information are relevance and faithful representation (IASB, 2008). This study measured financial reporting quality using discretionary accruals derived from modified-Jones 1991 model bearing in mind that financial reporting comprises both financial and non-financial information. Previous research revealed that Jones Model is frequently used to measure discretionary accruals as a proxy for financial reporting quality (Balsam, Krishnan & Yang, 2003; Chen & Lin, 2008; Chung and Kallapur, 2003; Jackson, Moldrich & Roeback, 2008; Johnson, Khurana & Reynolds, 2002;and Myers & Omer, 2003). This model is shown in the section for methodology. The benefits of using discretionary accruals as a proxy for financial reporting quality are: it can be computed based on the financial information in the annual report and it is possible to evaluate the impact of company's attributes on financial reporting quality (Healy&Wahlen,1999; Dechow, Sloan & Sweeney,1995).In addition, its use is consistent with empirical findings in prior research using other quality assessment tools (Beest, Braam & Boelens,2009).In a nut shell, in a situation where managers use judgement in financial reporting to alter financial reports to mislead stakeholders, thereby negatively affecting the quality of financial reporting, discretionary accruals model as a measurement tool for financial reporting quality becomes desirable (Healy &Wahlem,1999).

Audit Committee Meetings and Financial Reporting Quality

Regulators and others have expressed a strong preference for an audit committee that meets frequently. Audit committee meetings imply the number of times an audit committee member meets. This is quite different from attendance at meetings. Frequent

audit committee meetings allow for better communication between audit committee members and auditors (both external and internal) and enable the audit committee to be more effective [The Public Oversight Board ,1993, the Securities and Exchange Commission Chairman, Levitt ,1999 & the Blue Ribbon Committee , 1999].

The number of audit committee meetings is considered to be an important attribute for monitoring effectiveness (Lin, Li & Yang, 2006). As a result, the audit committee that meets more frequently with the internal auditors is considered better informed about auditing and accounting issues. An audit committee that meets frequently can reduce the possibility of financial fraud (Abbott, Parker & Peters, 2004; Raghunadan, Rama & Scarbrough, 1998). Bryan, Liu and Tiras (2004) posited that audit committees that meet regularly are often expected to be able to perform monitoring tasks more effectively than others that do not meet regularly. Zhang and Zhou (2007) used the number of meetings to measure whether the frequency influences quality of financial reporting and they found a positive correlation. Inactive audit committees with less number of meetings are unlikely to supervise management effectively (Menon & Williams, 1994). Beasley, Carcello, Hermanson and Lapides (2000) found that fraudulent firms with earning misstatements have fewer audit committee meetings than non-fraud firms. Hsu (2007) found that there is a positive relationship between audit committee meetings and a firm's financial performance. When audit committees meet often, discretionary accruals are less and there is the possibility of a firm reporting more earnings, which shows a better financial reporting quality (Xie, et al, 2003 & Vafeas, 2005).

However, empirical evidence on the impact of frequency of audit committee meeting on financial reporting quality differs. Bedard, Chtourou and Courtteay (2004) and Lin et al (2006) did not find any positive association between the frequency of audit committee meetings and financial reporting quality.

It follows therefore, an active audit committee with more meetings has more time to oversee the financial reporting process, identify management risk and monitor internal controls. Consequently, the quality of financial reporting tends to increase with an audit committee activity. Arising from the above, the following hypothesis is formulated:

H_1: *Frequency of audit committee meetings does not have significant influence*
    on financial reporting quality.

Audit Committee Financial Literacy and Financial Reporting Quality

Financial Literacy is typically demonstrated by employment, experience or certification in accounting or finance (Price Water House Coopers/11A, 2000). The experience and knowledge in accounting and auditing related issues are considered as an important dimension for an audit committee. This advantage can help the audit committee members to be more conversant with financial and operational reports that will enable them to execute their oversight duties effectively (Matlain & Mazlina, 2005).

It is generally accepted that the key duty of the audit committee is to review the financial reporting process to ensure the best quality. Thus, the availability of accounting and auditing expertise in the audit committee increases the efficiency of the audit committee's performance. Regulators from various countries realize the importance of financial literacy in improving the audit committee's effectiveness. They believe that the relevant experience or technical knowledge is crucial to effective accounting oversight (Kalbers & Fogarty, 1993). For instance, the Sarbanes-Oxley Act (2002) mandates that at least one member of the audit committee must be a financial expert.

In the United Kingdom, the South Report (2003) echoed the views of the Sarbanes-Oxley Act and specified that at least one audit committee member must have significant, recent and relevant financial expertise. In Nigeria, the Companies & Allied Matters Acts of 2004 is silent as regards financial expertise. A number of studies have documented a negative association between the financial accounting literacy in the audit committee and earnings management (Bedard, Chtourou & Courtteau, 2004).Yang and Krishnan (2005) and Lin, Li, and Yang (2006) did not find any significant relationship between financial literacy and financial reporting quality.

Defond, Hann and Hu (2005) and Samuel (2012) found a positive relationship between financial literacy/financial expertise and financial reporting quality. Carcello, Hollingsworth, Klein and Neal (2006) asserted that there is a correlation between financial literacy and financial reporting quality. Dhahival, Naiker and Navissi (2010) also observed a positive association between the financial literacy of audit committees and financial reporting quality. Xie et al (2003) found that audit committee members with accounting and financial knowledge are associated with companies that have smaller discretionary current accruals for financial reporting quality.

Audit committees that have financial literacy have greater interaction with their internal auditors (Raghunadam, Read & Rama, 2004). Emeni (2009) evaluated the impact of audit

committee characteristics on financial reporting quality and found that there is a positiv relationship between the financial reporting quality and financial literacy. In a nut shel financially knowledgeable audit committee members who possess accountin qualifications are more likely to prevent and detect financial frauds. This necessitates th formation of the following hypothesis:

H_2: *Financial literacy of audit committee members has no significant effect on financial reporting quality.*

Theoretical Framework

The theoretical basis for this study is the agency theory which emanates from th relationship between the principal (owners) and the agent (managers). Audit committee primarily align the interests of owners with the management's interest. Th establishment of audit committees is regarded as a reaction to information asymmetri between the owners of a company and its management (Herzig & Watrin, 1995). Demset and Lehn (1985) asserted that the primary objective of an audit committee is to resolv agency problems by monitoring management's behaviour and inspecting the quality financial reporting. Consequently, enhancing audit committees will lead to an improve financial reporting quality. Emanating from this agency theory, independent variable were considered with a view to examining the impact of these explanatory variable (Audit committee financial literacy and Audit committee frequency of meetings) o financial reporting quality.

3. Methodology

Research Design and Source of data

The study used the cross-sectional data design of companies listed in the Nigerian Stod Exchange over the period of 2006 to 2012 for the purpose of testing the hypotheses.

A total of one hundred and ninety four (194) quoted companies constitute the populatio The sample size consists of one hundred and thirty one (131) companies using Yar Yamane formula. The choice of companies was based on availability of data in respect o companies in operation for seven consecutive years taking cognizance of sectora representation of eleven (11) sectors of companies quoted on the Nigerian Stod Exchange. The study used secondary data derived from annual reports of one hundre and thirty one companies quoted on the Nigerian Stock Exchange.

Model Specification

Emanating from the extant literature, frequency of audit committee meetings is observed to have effect on the financial reporting quality(Zhang & Zhou,2000; Hsu,2007).Hence, the relationship between frequency of audit committee meetings and quality of financial reporting is expressed as:

$FRQ = f(ACFM)$ -- (1)

In like manner, audit committee financial literacy was observed to impact on financial reporting quality (Defond,Hann &Hu,2005; Samuel,2012). As a result, the relationship between financial literacy and financial reporting quality is shown as:

$FRQ = f(ACFL)$ --(2)

Combining the two equations, we have

$FRQ = f(ACFM;ACFL)$ --(3)

Introducing two control variables of board diligence (BDDIL) and board size (BDSIZE), we have: $FRQ = f(ACFM; ACFL; BDDIL;BDSIZE)$--------------------------------(4)

In econometric form:

$DACC_{it} = \partial_0 + \partial_1 ACFM_{it} + \partial_2 ACFL_{it} + \partial_3 BDDIL_{it} + \partial_4 BDSIZE_{it} + \mu_{it}$ --------(5)

Where:

DACC --------------------Discretionary Accruals(proxy for Financial Reporting Quality)

ACFM --------------------Frequency of Audit Committee Meetings

ACFL -------------------- Audit Committee Financial Literacy

BDDIL -------------------Board Diligence

BDSIZE -------------------Board Size

μ_{it} ----------------Error term

∂_1---∂_4 ----------------Unknown coefficients of the variables. It is expected as

∂_1-------$\partial_4 < 0$

DACC (Discretionary Accruals) adopted from modified-Jones (1991) model is determined as the residual (difference) between TAC and NDAC shown as follows:

$DAC_{i,t} = [|TAC_{i,t}| / A_{i,t-1}] - |NDAC_{i,t}|$ .... (eq.6)

$|TAC_{i,t}|/A_{i,t-1} = \beta_1[|CFO|/A_{i,t-1}] + \beta_2[\Delta Rev._{i,t}) /A_{i,t-1}] + \beta_3[|PPE_{i,t}|/A_{i,t-1}] + e_{i,t}$ ... (eq. 7)

$NDAC_{i,t} = \beta_{0i}[1/A_{i,t-1}] + \beta_{1i}[(\Delta Rev._{i,t} - \Delta Rec._{i,t})/A_{i,t-1}] + \beta_{2i}[|PPE_{i,t}|/A_{i,t-1}] + e_{i,t}$ ...(eq.8)

Where: $TAC_{i,t} = TAC_{i,t}|/A_{i,t-1}$ = Total accrual of company i in year t;

$\Delta Rev._{i,t}$ = Change in Revenues of company i between year t and t − 1;

$A_{i,t-1}$ = Total assets of company i at the end of year t − 1;

$PPE_{i,t}$ = Each company's gross values of Property, Plant and equipment in

year t – 1;

CFO = Cash Flow from operations for company i in year t;

$e_{i,t}$ = Error term

$NDAC_{i,t}$ = Non-discretionary accrual for company i at time t;

$Rec_{i,t} \Delta$ Change in account receivables (debtors) of company i, between year t and t – 1;

The variables in the model are measured in Table I as follows:

Table I Operationalisation of Variables

S/N	Variables	Definition	Type	Measurement	Authors
1.	FRQ	Financial Reporting Quality	Dependent	Discretionary Accruals	Modified J 1991model.
2.	ACFM	Audit Committee Frequency of Meetings	Independent	No. of Times Audit Committee meets in a Year	Zhang Zhou,2007; Lin, Li & 2006.
3.	ACFL	Audit Committee Financial Literacy	Independent	No. of Audit Committee Members	Kalters & Forg 1993
4.	BDDILI	Board Diligence	Independent(Contro l)	No. of meetings held by the Board	Xie, Davidso Dadalt, 2003.
5.	BDSIZE	Board Size	Independent(Contro l)	No. of Directors on the Board	Thinggard Kiertzner, 200

Source: Author's Compilation, 2015

For one hundred and thirty one companies (131) observed, the variables were measure in relation to each company, covering a period of seven years (2006 to 2012).

4. Data Analysis and Presentation

This section presents in detail, descriptive statistics, pearson correlation and ordinary least square regression.

Table II presents the result of the descriptive statistics of the variables as follows:

Table II: Descriptive Statistics

	DACC	ACFL	ACFM	BDDIL	BDSIZE
Mean	2.64E-07	1.4	3.4971	4.3853	9.5794
Median	-3.19E-05	1	4	4	10
Max	0.004968	4	12	9	18
Min	-0.00026	0	1	2	5
Std. Dev.	0.000304	1.149	1.0348	0.8999	2.4391
Jarque-Bera	660154.2	27.58	2483	242.55	16.918
Probability	0.00	0.00	0.00	0.00	0.0002

Source: Author's Compilation (2015)

Where; DACC= Discretionary accruals

ACFL= Audit committee financial literacy

ACFM= Audit committee frequency of meetings

BDDIL=Board Diligence

BDSIZE=Board size

As observed in Table II, DACC had a mean value of 2.64E-07 which suggested minimal **DACC** value for sample with maximum and minimum values of 0.00496 and -0.003 respectively and this is similar to results obtained by Okolie (2013).The standard deviation suggested that the DACC values across the companies exhibited considerable clustering around the mean. The Jacque-Bera statistic of 660154.2 alongside its p-value (p=0.00<0.05) indicated that the data satisfied normality and as well as the unlikelihood of outliers in the series. **ACFL** was observed to have a mean value of 1.4 with maximum and minimum values of 4 and 0 respectively. The standard deviation of 1.149 suggested a considerable cluster around the mean for the sample. The Jacque-Bera statistic of 27.58 alongside its p-value (p=0.00<0.05) indicated that the data satisfied normality as well as the unlikelihood of outliers in the series. The mean for **ACFM** is 3.497 with maximum and minimum values of 12 and 1 respectively. The standard deviation of 1.035 suggested a considerable cluster around the average. The Jacque-Bera statistic of 2483 alongside its p-value (p=0.00<0.05) indicated that the data satisfied normality. The statistics is higher

than that of Saudi quoted firms (mean=2.9 min=2, max=7), for New-Zealand (mean=2.4 min=0.00, max=12) (Rani, 2011) and lower in maximum values for Australian quoted firms (mean=3 min=0, max=15) (Al-Lehaidan 2006). The mean for **BDDIL** measured by the number of board meetings is 4.385 with maximum and minimum values of 9 and respectively. The standard deviation of 0.899 with a Jacque-Bera statistic of 242.5 alongside its p-value (0.00) indicated that the data satisfied normality. **BDSIZE** had mean value of 9.5794 with maximum and minimum values of 18 and 5 respectively.The spread of the data around the mean is 2.4391 which suggested a considerable cluster around the average. The Jacque-Bera statistic of 16.918 alongside its p-value (p=0.0002 0.05) indicated that the data satisfied normality.

Table III examines the correlation coefficients of the variables.

Table III: Pearson Correlation Statistics

	DACC	ACFL	ACFM	BDDIL	BDSIZE
DACC					
ACFL	-0.03	1			
ACFM	0.017	-0.108	1		
BDDIL	-0.053	-0.189	0.1263	1	
BDSIZE	0.001	-0.126	0.1287	0.131 8	1

Source: Author's Compilation (2015)

As observed in Table III, a negative correlation existed between DACC and ACFL(r=-0.03 Though the coefficient was weak, the direction of association suggested that audit committee financial literacy tended to decrease the DACC and hence improve financial reporting quality. A similar observation was identified by Baxter (2007) for Australian quoted companies with a coefficient (r=-0.020) though quite different from that found by Sherliza and Nuru (2012) (r=0.093) for Malaysian quoted companies. A positive correlation was also observed between DACC and ACFM (r=0.017). Though weak, the correlation suggested that ACFM might not be associated with a decline in DACC. DACC appeared to correlate positively with BDSIZE (r=0.001) and negatively with BDDIL(r= 0.053).

Table IV shows the regression assumptions test for the model.

Table IV Regression Assumptions Test

Multicollinearity test: Variance Inflation factor		
Variable	Coefficient Variance	Centered VIF
C	473.1977	NA
ACFL	3.78785	1.279933
ACFM	3.771958	1.319219
BDDIL	4.130693	1.162812
BDSIZE	0.74157	1.754793
Heteroskedasticity Test: ARCH		
F-statistic = 0.12504	Prob. F(1,45)	0.7253
Obs*R-squared = 1302	Prob.Chi-Square(1)	0.7182
Breusch-Godfrey Serial Correlation LM Test:		
F-statistic = 0.12504	Prob. F(2,34)	0.3939
Obs*R-squared=2.559647	Prob. Chi-Square(2)	0.2781
Ramsey Reset Test		
t- statistics=1.2948	Df= 92	0.1986
f-statistics =1.676	Prob. F(1,92)	0.1986

Source: Researcher's Compilation (2015)

As observed in Table IV, the variance inflation factor (VIF) shows how much of the variance of a coefficient estimate of a regressor has been inflated due to collinearity with the other regressors. Basically, VIFs above 10 are seen as a cause for concern (Landau and Everitt, 2003).As observed, none of the variables had VIF's values exceeding 10 and hence none gave a serious indication of multicollinearity. The ARCH test for heteroscedasticity was performed on the residuals as a precaution. The results showed probabilities in excess of 0.05, which led one to reject the presence of heteroscedasticity in the residuals. The Lagrange Multiplier (LM) test for higher order autocorrelation revealed that the hypotheses of zero autocorrelation in the residuals were not rejected. This was because the probabilities (Prob. F, Prob. Chi-Square) were greater than 0.05. The LM test did not, therefore, reveal serial correlation problems for the model. The performance of the

Ramsey RESET test showed high probability values that were greater than 0.05, meaning that there was no significant evidence of miss-specification.

Regression Result

Table V shows the empirical result of the effect of audit committee financial literacy and audit committee frequency of meetings on quality of financial reporting.

Table V: Regression Result

	2006	2006	2006	2007	2007	2007	2008	2008	2008
C	0.725	-0.625	- 49.691	0.167	-1.978	-16.047	0.002	-0.625	-0.030
	(1.927)	(1.927)	(22.749)	(0.711)	(0.699)	(8.418)	(0.064)	(6.233)	(0.788)
	{0.708}	{0.921}	{0.035}	{0.815}	{0.399}	{0.065}	{0.972}	{0.921}	{0.983}
ACFL	-1.450		-2.3888	-0.3422		-0.115	-0.002		-0.002
	(1.723)		(1.685)	(0.643)		(0.768)	(0.066)		(0.073)
	{0.034}		{0.165}	{0.041}		{0.032}	{0.049}		{0.984}
ACFM		-0.1886	-0.8728		-0.595	0.774		-0.0252	0.0259
		(0.181)	(1.804)		(2.804)	(0.754)		(0.079)	(0.090)
		{0.017}	{0.631}		{0.023}	{0.042}		{0.034}	{0.775}
BDSIZ			-2.266			0.385			-0.002
			(1.285)			(0.338)			(0.066)
			{0.085}			{0.263}			{0.973}
BDDIL			-2.266			-1.935			-0.002
			(1.285)			(0.827)			(0.066)
			{0.085}			{0.026}			{0.973}
R^2	0.5	0.523	0.542	0.530	0.514	0.562	0.570	0.554	0.570
F-Stat	3.708	2.017	4.744	3.708	2.621	2.039	2.621	2.174	0.585
P(f-stat)	0.034	0.017	0.00	0.031	0.034	0.057	0.042	0.044	0.821
D.W	1.9	2..00	2..00	1.9	1.91	2.00	1.91	2.00	1.99
	2009	**2009**	**2009**	**2010**	**2010**	**2010**	**2011**	**2011**	**2011**
C	0.725	-0.448	-0.503	-1.643	-0.093	1.849	0.035	-0.599	19.951
	9.064	(1.333)	(0.574)	(3.702)	(0.702)	(4.527)	(0.351)	(1.394)	(6.275)
	{1.927}	{0.002}	{0.386}	{0.659}	{0.895}	{0.685}	{0.920}	{0.631}	{0.003}
ACFL	-1.450		-0.0452	-0.189		-0.165	-0.058		-0.090
	(1.723)		(0.042)	(0.262)		(0.288)	(0.372)		(0.343)
	{0.044}		{0.290}	{0.039}		{0.571}	{0.045}		{0.794}
ACFM		-0.129	-0.138		-0.026	0.0221		-0.1919	0.600
		(0.036)	(0.042)		(0.178)	(0.196)		(0.039)	(1.304)
		{0.000}	{0.000}		{0.032}	{0.910}		{0.043}	{0.000}
BDSIZ			-0.0172			-0.0826			0.0172
			(0.018)			(0.1851)			(0.018)
			{0.368}			{0.6579}			{0.368}
BDDIL			-0.1618			-0.3169			-0.1618
			(0.058)			(0.4163)			(0.039)

			{0.009}			{0.4514}			{0.522}
R²	0.580	0.590	0.574	0.510	0.540	0.56	0.521	0.53	0.57
F-Stat	2.198	4.61	2.199	3.708	2.021	0.706	2.422	2.561	5.199
P(f-stat)	0.044	0.003	0.033	0.026	0.041	0.591	0.038	0.031	0.003
D.W	2.1	2.1	1.8	1.9	2.00	2.03	2.0	2.00	2.00
	2012	2012	2012						
C	0.0389 (2.150) {0.857}	-3.846 (7.627) {0.601}	-48.350 (53.847) {0.185}						
ACFL	-0.763 (0.193) {0.024}		-0.1029 (2.160) {0.636}						
AUDFM		-1.073 (0.526) {0.014}	-1.2522 (2.126) {0.636}						
BDSIZ			0.0172 (0.0188) {0.368}						
BDDIL			-0.1618 (0.058) {0.009}						
R²	0.552	0.542	0.58						
F-Stat	2.156	6.61	2.199						
P(f-stat)	0.042	0.00	0.033						
D.W	2.1	2.0	2.03						

Source: Author's Compilation (2015) * sig at 5%, ** sig at 10% n.b: ( ) standard error { } p-values

For 2006, evaluating the individual effect of the variables, we observed that Audit Committee Financial Literacy (ACFL) explained about 50% of systematic changes in quality of financial reporting. The coefficient was negative (-1.450) in line with the predicted sign and significant (p=0.034) at 10% level. The F-stat (3.708) and p-value (0.034) indicated that the null hypothesis which states that Audit committee financial literacy has no significant influence on quality of financial reporting was rejected at 10% level while the D. W statistics of 1.9 indicated the absence of serial correlation of the residuals in the model. The negative coefficient of -1.450 implies that there was an increase in audit committee financial literacy which resulted in a decline in discretionary accruals and thus improved (i.e .increase) the quality of financial reporting. .Audit committee frequency of meetings accounted for about 52% of systematic changes in quality of financial reporting. The coefficient was negative (-0.1886) and significant

(p=0.017) at 5% level. The F-stat (2.017) and p-value (0.017) did not support the nu hypothesis of no significant influence of Audit committee frequency of meetings on quali of financial reporting while the D. W statistics of 2.0 indicated the absence of seri correlation of the residuals in the model. The implication of the negative coefficient o 0.1886 is that there was an increase in audit committee frequency of meetings whil resulted in a decline in discretionary accruals and thus an increase in the quality financial reporting. For 2007, Audit Committee Financial Literacy (ACFL) explained abo 53% of systematic changes in quality of financial reporting. The coefficient was negati (-0.342) but significant (p=0.041) at 5% level. The F-stat (3.708) and p-value (0.03 indicated that the null hypothesis of no significant effect of ACFL on quality of financi reporting was rejected at 5% level while the D. W statistics of 1.9 indicated the absence serial correlation of the residuals in the model. Audit Committee Frequency of Meetin (ACFM) accounted for an impressive 51% of systematic changes in quality of financi reporting. The coefficient was negative (-0.595) and significant (p=0.023) at 5% level. T F-stat (2.621) and p-value (0.034) did not support the null hypothesis of no significa influence of ACFM on quality of financial reporting at 5% level while the D. W statistics 1.9 indicated the absence of serial correlation of the residuals in the model. For 200 Audit Committee Financial Literacy (ACFL) explained about 57% of systematic changes quality of financial reporting as against 50% and 53% observed in 2006 and 200 respectively. The coefficient was negative (-0.002) but significant (p=0.049) at 5% lev The F-stat (2.621) and p-value (0.042) did not support the hypothesis of no significa effect of ACFL on quality of financial reporting at 5% level while the D. W statistics of 2.0 indicated the absence of serial correlation of the residuals in the model. Audit Committe Frequency of Meetings (ACFM) accounted for an impressive 57% of systematic change in quality of financial reporting. The coefficient was negative (-0.025) and significa (p=0.034) at 5% level. The F-stat (2.174) and p-value (0.044) did not support the nu hypothesis of no significant linear relationship at 5% level while the D. W statistics of 2.0 indicated the absence of serial correlation of the residuals in the model. For 2009, Aud Committee Financial Literacy (ACFL) explained about 58% of systematic changes quality of financial reporting as against 57% in 2008 and 50% observed in 2006 and 53 in 2007. The coefficient was negative (-1.450) but significant (p=0.044) at 5% level. Th F-stat (2.198) and p-value (0.044) did not support the hypothesis of no significant effe of ACFL on quality of financial reporting at 5% level while the D. W statistics of 1.

indicated the absence of serial correlation of the residuals in the model. Audit Committee Frequency of Meetings (ACFM) accounted for 59% of systematic changes in quality of financial reporting in 2009. The coefficient was negative (-0.129) in line with the predicted sign and significant (p=0.00) at 5% level. The F-stat (4.61) and p-value (0.003) did not support the null hypothesis of no significant effect of ACFM on quality of financial reporting at 5% level while the D. W statistics of 2.00 indicated the absence of serial correlation of the residuals in the model. For 2010, Audit Committee Financial Literacy (ACFL) explained about 51% of systematic changes in quality of financial reporting. The coefficient was negative(-0.189) but significant (p=0.039) at 5% level .The F-stat(3.708) and p-value(0.026) did not support the hypothesis of null significant impact of ACFL on quality of financial reporting at 5% level while the D.W statistics of 1.9 indicated the absence of a serial correlation of the residuals in the model. Audit committee frequency of meetings (AUDFM) accounted for about 54% of systematic changes in the quality of financial reporting in 2010. The coefficient was negative (-0.026) and significant (p=0.039) at 5% level. The F-stat (2.021) and p-value (0.041) did not support the null hypothesis of no significant influence of ACFM on quality of financial reporting at 5% level in 2010 while the D. W statistics of 2.00 indicated the absence of serial correlation of the residuals in the model. For 2011, Audit Committee Financial Literacy (ACFL) explained about 52% of systematic changes in quality of financial reporting. The coefficient was negative (-0.058) but significant (p=0.045) at 5% level. The F-stat (2.422) and p-value (0.038) did not support the null hypothesis of no significant impact of ACFL on quality of financial reporting at 5% level while the D. W statistics of 2.0 indicated the absence of serial correlation of the residuals in the model. Audit committee frequency of meetings accounted for 53% of systematic changes in quality of financial reporting. The coefficient was negative (-0.191) and significant (p=0.043) at 5% level. The F-stat (2.561) and p-value (0.031) failed to support the null hypothesis of a no significant influence of ACFM on quality of financial reporting at 5% level while the D. W statistics of 2.00 indicated the absence of serial correlation of the residuals in the model. For 2012, Audit Committee Financial Literacy (ACFL) explained about 55% of systematic changes in quality of financial reporting. The coefficient was negative (-0.763) but significant (p=0.024) at 5% level. The F-stat (2.156) and p-value (0.042) did not support the null hypothesis of no significant impact of ACFL on financial reporting quality at 5% level while the D. W statistics of 2.1 indicated the absence of a serial correlation of the residuals in the model.

Audit committee frequency of meeting accounted for 54% of systematic changes in qual of financial reporting. The coefficient was negative (1.073) though significant (p=0.60 at 5% level. The F-stat (6.61) and p-value (0.00) did not support the null hypothesis of significant effect of ACFL on quality of financial reporting at 5% level while the D. statistics of 2.00 indicated the absence of a serial correlation of the residuals in the mod

5. Conclusion and Recommendations

The study postulates, in line with prior studies, based on agency theoretical framewo that audit committee can impact significantly, constrain accrual-based distortion quality of financial reporting credibility and thus improve the quality of finand reporting. To buttress this argument, audit committee financial literacy and au committee frequency of meetings were regressed on discretionary accruals used as pro for quality of financial reporting while board diligence and board size as control variabl The findings of the study suggest that audit committee financial literacy and au committee frequency of meetings are important attributes that significantly determin the level of financial reporting quality in Nigerian quoted companies as both au committee financial literacy and audit committee frequency of meetings had positi statistical significant impact on quality of financial reporting in Nigerian quot companies.

Arising from the findings, are the following recommendations:

There is the need for trainings and seminars to be organized for members of au committee by regulatory authorities such as Central Bank of Nigeria (CBN), Securities a Exchange Commission (SEC) and Nigeria Deposit Insurance Corporation (NDIC) obtainable in other developed countries where audit committee institutions a established to train members of audit committee. This will enable members keep abre of up to date information as regards their roles and responsibilities which will make the more effective and efficient in their assignments.

Importantly also, the Securities and Exchange Commission and the Central Bank Nigeria should put in place a regulation which ensures that audit committee membe maintain at least an attendance rate of 85% for them to be retained in the audit committ for the following financial year. The practice where audit committee members are simp there just to complete the audit committee size without active attendance a participation at meetings should be curtailed.

Lastly, it is suggested that regulatory authorities such as SEC, CBN and NDIC should give special attention to audit committee members with high status with a view to making it mandatory for all companies to comply with it bearing in mind that while financial literacy provides the knowledge necessary to improve quality of financial reporting, it may not be sufficient by itself to effectively reduce accounting irregularities. Status, in this context, implies an aspect of personal power reflecting the ability to influence outcomes based on perceived skills, qualities and personal attributes.

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