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Audit Committee and Financial Reporting Quality: The Moderating Effect of Institutional Ownership in Nigerian Listed Firms

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Abstract

This study examines the audit committee's effectiveness on financial reporting quality and test the moderating effect of institutional ownership in both the short and the long run. The study utilised data from 101 non-financial firms listed on the Nigerian Exchange Group (NGX) for the 2011 to 2015 period. The study employed the Generalised Method of Moments (GMM) technique to control for potential endogeneity. The results show that financial reporting and its process have improved significantly. The findings further indicate that audit committee shareholders' financial expertise, audit committee shareholder chairman, and external audit provide a significantly negative relationship. However, the results suggest that the audit committee block shareholders' relationship with financial reporting weakened audit committee performance by increasing earnings management practice and financial reporting lag. At the same time, the interacting role of institutional ownership improves the overall effectiveness of the audit committee, particularly on audit committee block shareholders both in the short and long run. This paper supports the view that governance should make a difference in protecting shareholders' interests, hence, reviewing governance policies should be done within reasonable intervals.

Keywords: Audit committee, financial reporting quality, institutional ownership

1. Introduction

The rapid globalisation of the capital market has undoubtedly brought about new changes to the business environment all over the world. These paradigm shifts have strengthened the need to remodel most countries' financial reporting quality (FRQ) regimes (Bajra & Čadež, 2018; Bala et al., 2021). One important change that has influenced financial reporting practices in recent times has been the integration of national financial systems regulation with international private sector accounting bodies such as the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC), and European Union (Agana et al., 2023; Paula Silva et al., 2021).

Financial reporting represents one of the most vital roles of corporate governance (CG) in attesting to the quality and credibility of financial reporting (Baatwah et al., 2020; Crisóstomo et al., 2020). The quality of financial reporting is to inspire transparency and bring high-quality annual reports through complete disclosure (Ong & Gabriel, 2018). Thus, financial information impacts investors' behaviour regarding portfolio selection, which in turn affects the prices of securities, and which firms acquire additional financing (Berikol & Killi, 2021; Hussaini, 2018). Additionally, financial reporting covers the firm's business

cycle and provides stakeholders with adequate information concerning the growth of the business, investment portfolios, and dynamics, the degree of risk, and equity prices (Bianchi et al., 2018).

However, the accounting fraud surrounding the collapse of high-profile businesses witnessed in the past decade all over the world has raised grave concerns about the effectiveness of CG mechanisms and monitoring strategies previously employed by firms in order to protect the interest of investors (Abdullah & Ismail, 2016; Khalil & Ozkan, 2016). These previous scandals have triggered the issuance of new regulations across the globe, such as the Sarbanes-Oxley Act of 2002 (SOX) in the US (Sarbanes, 2002) and the Combined Code of 2003, 2006, and 2008 in the UK (Code, 2008; Knechel, 2016).

In Nigeria, the Enron-like accounting scandal and other similar frauds have also been witnessed. Due to the use of obsolete CG codes and the dismal performance of the previous AC which has led to financial reporting malpractices through Earnings Management (EM) practices leading to the financial reporting lag (FRL). This ugly scenario has resulted in various corporate collapses in all sectors of the economy that have been lingering for quite some time in the Nigerian business environment (Adeyemi, 2019; Bappah et al., 2022). The Nigerian response was the formation of a unique AC and the adoption of International Financial Reporting Standards (IFRS) to strengthen the reliability and credibility of the financial reporting process (Agana et al., 2023). The CG has placed more emphasis on institutional ownership (IO) and members of the AC to monitor the activities of the firms (FRCN, 2018). Therefore, the principal objective of this paper is to examine the effect of members of the AC on FRQ using accrual-based EM for a sample of 101 Nigerian firms over the period 2011–2015.

The study contributes to the existing literature in many ways. First, this present study presents the pioneer effort in investigating EM practice and FRL with shareholders as AC members. Second, the result offers clear insight into the effectiveness of IO monitoring ability. The remainder of the paper is as follows. The next section presents the literature review and hypothesis development, data and methodology, empirical results, and conclusion and recommendations.

2. Literature Review and Hypothesis Development

This present study is underpinned by agency theory. The assumption of this theory is consequent upon the problems of agency arising due to the separation of ownership and control of a large firm when conflicts of interest exist between principals and agents. These problems are caused by asymmetric information, which suggests an agency cost for the principal. Agency theory is still one of the vital theories in CG that emphasizes reducing costs in agency relations. This study critically assesses the principal-agent relations, focusing on the interaction between the institutional investors (IO) and AC characteristics such as the Chairman of the committee, financial expert, block shareholders, and audit effort in CG. The advocates of agency theory suggest that human-factor dependent and CG mechanisms be integrated to lower the opportunistic behaviour of managers against shareholders' interest.

2.1 Financial Reporting Quality

The financial report has received increased attention from regulators, stakeholders, and policymakers following various accounting scandals recorded all over the world (Al-Shaer, Salama, & Toms, 2017; Ghafran & Yasmin, 2018). Thus, to address the issue of financial reporting, the debate has focused on CG mechanisms innovation that might enhance FRQ (Al-Shaer et al., 2017). Effective CG involves a series of mechanisms that guarantee an effective financial reporting process, accountability, and responsibility

(Ghafran & Yasmin, 2018). These emphases are indicative of an association between CG and FRQ that an effective AC will improve upon.

Previous research proxied FRQ using EM and Audit Quality (AQ) proxied by Financial Reporting Lag (FRL)(Oussii & Boulila Taktak, 2018). Hence, improvements in FRQ are accomplished through strengthening governance, encouraging conservatism (Salau O Abdulmalik & Che-Ahmad, 2016), and reducing managers' opportunistic behaviour (Chen et al., 2021). Consequently, AC members are expected to reduce errors and enhance compliance with regulation (Calderón, Piñero, & Redín, 2018; Evans & Rusmin, 2017), risk management oversight, and system of internal control (Sterin, 2020) and the level of voluntary disclosure (Abdul Hussein et al, 2021).

The composition of AC according to section 404 (2) of the Companies and Allied Matters Act 2020 (CAMA) as amended shall consist of five members consisting of three members and two non-executive directors, the members of the AC are not eligible for remuneration, and are subject to election every year. Subsection (4) further stressed that the AC shall scrutinize the auditors' report and make recommendations thereon to the annual general meeting as it may deem fit. Further, subsection 5 states all members of the AC shall be financially literate, and at least one member shall be a member of a professional accounting body in Nigeria established by an Act of the National Assembly (CAMA, 2020). This present study will concentrate on three members of the AC hereafter referred to as the AC shareholders. Consequently, AC shareholder Chairman, AC shareholder financial expertise, and AC block shareholder.

Involving shareholders in the AC could enhance FRQ. Consequently, it is hoped that shareholders as seating members of the AC can bring their experience to bear when performing AC's functions (Al-ahdal & Hashim, 2022; Komal et al., 2022). Further, factors that can impact on performance of the AC include; members' status, knowledge of accounting, and industry expertise (Gunn & Michas, 2018). Therefore, shareholders are required to effectively play dual roles of being owners and show the ability to monitor the financial reporting process that can lead to FRQ which can be evaluated within a reasonable time limit as contained in the regulation (Sunusi, 2011). It is also argued that shareholders can effectively monitor executive directors (ED) powers concerning financial reporting functions and protect auditors' independence (Meuwissen & Quick, 2019). Further, shareholders presence could increase public confidence regarding FRQ (Al-ahdal & Hashim, 2022).

2.1.1 Audit Committee Shareholder Chair and Earnings Management

Shareholders are expected to assume the leadership responsibility of the AC considering their investment as the chair of the AC is more responsible for overseeing the financial reporting process (Khemakhem & Fontaine, 2019) and thus, liable to the FRQ (Chen et al., 2022). Further, the contact point for the committee, management, and external/internal auditors is the chairman (PricewaterhouseCoopers, 2003). Prior literature suggests that the AC chairman is one of the firm's higher positions and the hierarchy is a reliable power source (Free et al., 2021).

2.1.2 Audit committee shareholder financial expertise and earnings management

Financial expertise is regarded as one of the single most significant features of AC (Ghafran & Yasmin, 2018). Hence, shareholders are expected to have at least a first degree, its equivalent, or higher degree from a recognised university in Nigeria or abroad in an accounting or management-related field of study. As a regulatory requirement all members must be professionally qualified (CAMA, 2020). Prior studies argued that the fall of Enron due to high-profile corporate scandals was because Enron's AC chair lacked relevant

expertise (Breeden, 2003). Hence, a collection of knowledge skill, and structural power from shareholders may bring forth the effectiveness of AC.

2.1.3 Audit committee block shareholder and earnings management

Further, individual block shareholders in the AC have the potential to provide satisfactory AC performance due to the volume of shares held (Arowolo & Che-Ahmad, 2017). Thus, individual block shareholders are in a better position to restrain managerial myopia by encouraging managers to invest in long-term and profitable portfolios (Habbash, 2013). Further, large shareholders in the AC are more likely to provide effective AC performance due to the magnitude of shares held. They are also in a better position to suppress managerial myopia by advocating for managers to invest in long-term and profitable portfolios (Crisóstomo et al., 2020). Moreover, the monitoring abilities and skills of the large shareowners should be taken into consideration, in addition to the interests they vest in firm performance to reduce managerial tendencies (Fang et al., 2018). Further, empirical evidence indicates that companies with large investors are less likely to be penciled out by the SEC as manipulating earnings (P. Dechow, Sloan, & Sweeney, 1996). In addition, (Edmans, 2014) argued that large investors can detect accounting manipulation and put a stop to it.

2.1.4 Institutional ownership and earnings management

Shareholding in recent times around the globe tilted towards identifiable interest groups such as institutions like pension funds, banks, and insurance (Amin et al., 2015). A prior study argues that institutional investors decrease information asymmetry and effectively tab management, with lower EM and enhance quality financial reports (Elyasiani et al., 2017). Further, IO strengthens CG apparatus such as firms' ACs for adequate supervision of the financial reporting process, which consequently reduce agency problem. Lo et al (2017) report that Indonesian firms with IOs suppress real EM. Based on the above discussions, the following hypotheses are developed.

Hypothesis 1: Audit committee shareholders chairman could lower earnings management and reduce financial reporting lag in Nigerian listed firms.

Hypothesis 2: Audit committee shareholders with financial expertise could constrain earnings management and reduce financial reporting lag in Nigeria-listed firms

Hypothesis 3: Audit committee block holders could suppress earnings management monitor financial reporting process in Nigeria-listed firms

Hypothesis 4: Institutional ownership could moderate the relationship between shareholders as audit committee chair, financial expertise, and block shareholders.

3. Methodology

The data were collected from publicly non-financial listed firms over the period 2011–2015 from the annual report and accounts. The total population is 204 firms; less 28 firms delisted within the period under study; 57 financial institutions (banks and insurance) that were removed due to their multiple regulations; and 18 firms with no data were not considered. Hence, the total sample in this study is 101 firms of 505 firm-year observations, representing 101 companies over five-year periods. The paper utilised dynamic panel data using the Generalised Method of Moment (GMM). Thus, the paper adopts the Modified-Jones accrual model by Dechow et al. (1995). Most prior studies suggest that the most reliable and consistent models to detect manipulative financial reports, using a manager's discretionary right of accounting methods choice and estimates are the Jones model (1991), the modified Jones model (Dechow model (1995), and Kasznik model (1999) (Bešlić, Bešlić, Jakšić, & Andrić, 2015; Kashmiri, 2014; Peasnell, Pope, & Young, 2005) as shown below;

$$\mathbf{TAC_{it} = EBIT_{it} - CFO_{it}} \quad (1)$$

$$\frac{\mathbf{TAC_{it}}}{\mathbf{TA_{it-1}}} = \boldsymbol{\alpha_0} + \boldsymbol{\alpha_1}\left(\frac{\mathbf{1}}{\mathbf{TA_{it-1}}}\right) + \boldsymbol{\alpha_2}\left[\frac{(\Delta\mathbf{REV_{it}} - \Delta\mathbf{REC_{it}})}{\mathbf{TA_{it-1}}}\right] + \boldsymbol{\alpha_3}\left(\frac{\mathbf{PPE_{it}}}{\mathbf{TA_{it-1}}}\right) + \boldsymbol{\varepsilon_{it}} \quad (2)$$

$$\mathbf{NDA}\text{it} = \boldsymbol{\alpha_0} + \boldsymbol{\alpha_1}\left(\frac{\mathbf{1}}{\mathbf{TA_{it-1}}}\right) + \boldsymbol{\alpha_2}\left[\frac{(\Delta\mathbf{REV_{it}} - \Delta\mathbf{REC_{it}})}{\mathbf{TA_{it-1}}}\right] + \boldsymbol{\alpha_3}\left(\frac{\mathbf{PPE_{it}}}{\mathbf{TA_{it-1}}}\right) + \boldsymbol{\varepsilon_{it}} \quad (3)$$

$$\mathbf{DA_{it} = TAC_{it} - NDA_{it}} \quad (4)$$

Long-run effect for the $\mathbf{K^{th}}$ parameters is computed as $\boldsymbol{\beta_k} \div \mathbf{[1 - \phi]}$ (5)
Thus, the following regression equation was estimated;

$$DAit = \beta_o + \beta_1 ACFE_{it} + \beta_2 ACSCr_{it} + \beta_3 ACBLS_{it} + \beta_4 EXAUD_{it} + \beta_5 FRLit + \beta_6 IO_{it} + \beta_7 ACSF * IO_{it} + \beta_8 ACSCr * IO_{it} + \beta_9 ACBL * IO_{it} + \beta_{10} EXAUD_{it} * IO_{it} + \beta_{11} FSIZE_{it} + \beta_{12} LEV_{it} + \beta_{13} PRO_{it} + \beta_{14} IFRS_{it} + \beta_{15} GRWTH_{it} + \beta_{16} COMPLEX_{it} + \varepsilon it$$

Previous researches have adopted (Ashton, Graul, & Newton, 1989) timeliness model in testing their hypothesis. Hence, this present study has adopted the modified (Ashton et al., 1989) model to test the hypothesis and the model equation is shown below:

$$lFRL_{it} = \beta_o + \beta_1 ACFE_{it} + \beta_2 ACSCr_{it} + \beta_3 ACBLS_{it} + \beta_4 EXAUD_{it} + \beta_5 DA_{it} + \beta_6 IO_{it} + \beta_7 ACSF * IO_{it} + \beta_8 ACSCr * IO_{it} + \beta_9 ACBL * IO_{it} + \beta_{10} EXAUD_{it} * IO_{it} + \beta_{11} FSIZE_{it} + \beta_{12} LEV_{it} + \beta_{13} PRO_{it} + \beta_{14} IFRS_{it} + \beta_{15} GRWTH_{it} + \beta_{16} COMPLEX_{it} + \varepsilon it$$

Table 1: Variables, Measurement, and Sources

Variables	Measurement Descriptions	Source
LFRL	Log of number of days from year-end to when the financial report is published	Aubert (2009)
ACSFE	Measured by 1 if the shareholder is a financial expert 0 otherwise	Abernathy et al. (2014)
ACSCr	Measured by 1 if the chairman is a shareholder 0 otherwise	Kibiya et al. (2016)
ACBLS	Measured by 1 if the shareholder is a block shareholder, 0 otherwise	Abernathy et al. (2014)
EXAUD	Measured by the natural log of audit fees	Mohamed & Habib (2013)
DA	Total Accruals minus Non-Discretionary Accruals	Dechow et al. (1995)
IO	5% or more shares held by investors.	Dou et al. (2013)
FSIZE	Measured by the natural logarithm of total assets	Carpenter (2002)
PROF	Net profit divided by year-end owner's equity	Mollik & Bepari (2012)
LEV	Total liability divided by total assets	Hodgdon et al. (2009);
IFRS	Measured by dummy 1 if IFRS is used, 0 otherwise	Yaacob & Che Ahmad (2012)
COMPLEX	Dummy 1if a firm has a subsidiary,0 otherwise	Abdulmalik & Che-Ahmad (2016)
GRWTH	Measured by market equity value to book value	Mayers (1977); Gavers (1995)
ROA	Measured by net income divided by total assets	Ashbrough (2003)
BSIZE	Total number of board members	Gaver (1995)

ACSFE = Audit committee shareholders' financial expertise, ACSCr =Audit committee shareholder chair, ACBLS = Audit committee block shareholders, EXAUD = External audit, DA = Discretionary accruals, IO = Institutional Ownership, FSIZE = Firm size, LEV = Leverage, PROF = Profitability, GWTH = Firm growth, COMPLEX= Client complexity, ROA=Return on assets, BSIZE=Board size, YREFFT = Year Effect, INDEFFT = Industry Effect, β = Coefficients in the regression model, Ɛ = Error term, subscript $_{it}$ symbolizes panel data notations; I = Entity (Firm), t = study period from 2011 – 2015.

Source: Authors' Compilation (2023)

4. Data Analyses and Discussion of Findings

4.1 Descriptive Statistics

Table 2: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
LFRL	95	59	10	365
EXAUD	14953	18352	400	145000
DA	0.27	0.18	0.01	0.55
IO	0.15	0.14	0	0.49
BSIZE	9	3	5	20
ROA	0.08	0.05	-0.02	0.33
LEV	0.11	0.03	0.05	0.20
GRWTH	0.08	0.03	0.06	0.21
FSIZE	4.79	0.84	2.54	7.45
PROF	0.14	0.13	-0.07	0.72

Source: Authors' Computation (2023)

Table 2 shows the result of the descriptive statistics of the continuous variables as depicted as estimated usin is measured as a distinct dataset by considering the number of days taken between a firm's fiscal year-end to the date when the report is announced or published (Abernathy et al., 2014). This result indicates a clear violation of the standards set by the SEC, where companies are required to publish their stewardship after the close of business at the year-end within 90 days as prescribed by Section 60 (2d) (iii) of the Investment and Securities Act (ISA), 2007. Other variables as indicated by the table suggested that they are within normal based on their minimum, maximum, and standard deviations.

4.2 Descriptive Statistics of Dummy Variables

Table 3: Frequency Distribution of dummy variables

	Frequency		Percentage	
Variable	1	0	1	0
ACSFE	435	70	86	14
ACSCr	480	25	95	5
ACBLS	151	354	30	70
COMPLEX	360	145	71	29
IFRS	404	101	80	20

Source: Authors' Computation (2023)

The result in Table 3 presents the frequency statistics of the dummy variables. It can be observed that 86% (435 firms) have shareholders with financial expertise in the AC, while 14% (70 firms) are without financial expertise. Thus, signifying compliance with SEC regulation. The results also reveal that 95% (480 firms) ACs are chaired by a shareholder, while 5% (25 firms) are chaired by an IND in the AC. Additionally, the number of block shareholders suggests that 30% (151 firms) of the ACs of Nigerian firms include block shareholders, while 70% (354 firms) do not block holders.

4.3 Diagnostic Test

Table 4: Diagnostic tests

Statistics	**F**	**χ2**	**Prob>χ2**	**Prob>F**	Mean VIF
Heteroskedacity		(100) = 78496.06	0.0000		
Auto/Serial correlation	4.612			0.0342	
Multicollinearity					2.12
Endogeneity DA	118.5386***			0.0000	
Endogeneity FRL	7.40552**			0.0067	

Source: Authors' Computation (2023) ** and * denote significance at the 1% and 5% levels**

The study diagnosed issues that are concerned with problems econometric in panel data estimation as shown in Table 4. The results of the tests show that the model is characterised by the presence of heteroskedasticity, auto/serial correlation, and endogeneity, therefore, the use of GMM is justified. Although the model is free from multicollinearity as the mean VIF is 2.12.

4.4 Audit Committee and Financial Reporting Quality

The study estimates a two-step system GMM for DA and FRL. The results of the two models are shown in Table 5. The two steps is more robust as argued by (Roodman, 2009). The Wald Chi2 (24) value FRL is 82265.37 and statistically significant at the 1% level. While Wald Chi2 (21) for DA is 454574.78 and statistically significant 1%. These results confirm that all variables are vital and therefore, must be retained in the model. Thus, the model is found to be fit.

Table 5: Twostep system GMM Regression analysis for the short-run

Variables	Coef.	z-stat	P>Value	Variables	Coef.	z-stat	P>Value
DA				LFRL			
L1.	-0.1266	-7.19	0.000	L1.	0.5192***	23.89	0.000
ACSFE	-0.2184***	-3.29	0.001	ACSFE	-0.1518***	-3.31	0.001
ACSCr	-0.5660***	-4.35	0.000	ACSCr	-0.2376***	-3.16	0.002
ACBLS	0.0567*	1.79	0.074	ACBLS	0.1253***	3.44	0.001
EXAUD	-0.5476***	-22.09	0.000	EXAUD	-0.2716***	-4.91	0.000
LFRL	0.0555**	2.10	0.036	DA	0.0616***	4.67	0.000
IO	1.9507*	1.93	0.053	IO	-3.1117**	-2.57	0.010
IO*ACSFE	-2.7687***	-5.48	0.000	IO*ACSFE	-1.5791***	-2.81	0.005
IO*ACSCr	-2.0757***	-5.17	0.000	IO*ACSCr	-0.6311**	-2.25	0.025
IO*ACBLS	-0.5301***	-3.13	0.002	IO*ACBLS	-1.1858***	-4.44	0.000
IO*EXAUD	-0.7828***	-3.77	0.000	IO*EXAUD	-1.8394***	-6.13	0.000
BSIZE	-0.0095***	-2.63	0.009	LEV	0.2354***	2.80	0.005
LEV	0.0157**	2.10	0.035	PROF	-0.0009***	-5.45	0.000
ROA	0.0023***	6.15	0.000	GRWTH	-0.4134***	-3.07	0.002
IFRS	-0.0955	-1.52	0.128	IFRS	0.4786***	3.80	0.000
FSIZE	0.0418***	3.31	0.001	FSIZE	0.0157	1.35	0.178
_cons	1.2197***	8.32	0.000	CLIENT	-0.1068*	-1.96	0.050
				_cons	0.9220***	3.15	0.002
Statistics	**Coefficient**		**P-Value**	**Statistics**	**Coefficient**		**P-Value**
Wald Chi2 (24)	454574.78			Wald Chi2(24)	82265.37		
Prob>Chi2			0.000	Prob>Chi2			0.000
AR2			0.339	AR2			0.101
Hansen J.			0.279	Hansen J.			0.672
No. of Group	100			No. of Group	100		
No. of Inst.	96			No. of Inst.	97		
Industry Effect	Yes			Industry Effect	Yes		
Year Effect	Yes			Year Effect	Yes		

Source: Authors' Computation (2023)

Note: *, ** and * denote significance levels at the 10%, 5%, and 1% respectively.**

The results for AR2 and Hansen J-statistic DA shows 0.339 and 0.279, while AR2 and Hansen –J for FRL is 0.101 and 0.672 respectively, indicating that there is no second order correlation and the moment condition were correctly specified and valid. The numbers of groups and instruments are 100 and 96, 100 and 97 for the both DA and FRL respectively, suggesting that the moment conditions are correctly specified. The lag dependent variables for the two models also indicate that the instrument for the models are good for results efficiency.

The result shows that ACSFE and ACSCr show a significant negative relationship with both DA and FRL implying that the presence of an expertise shareholder as AC chair, could lower both DA and FRL in the short run *ceteris paribus*. The result is consistent with (Miko & Kamardin, 2015) and (Ilaboya & Christian, 2014) who reported a significant increase in the overall AC's effectiveness, stressing that AC constitutes part of the whole

organisational control mechanism which helps to beef up CG practices through AC effectiveness. However, the result of ACBLS shows a significant positive relationship with DA and FRL. This suggests that ACBLS could only increase DA and equally FRL in the short run *ceteris paribus*. The result is consistent with (Arowolo & Che-Ahmad, 2017) that ACBLS takes sides with managers for self-benefit and fails to improve monitoring that can enhance FRQ (Hales et al., 2018) . Consequently, this result contradicts the theoretical postulations of the agency theory.

The interaction results however, indicates that IO could improve the performance of AC members, it shows that IO*ACSFE, IO*ACSCr, IO*ACBLS, and IO*EXAUD have a negative and significant relationship with DA and FRL. It means that the interaction of IO could further improved on the earlier established relationship of the AC shareholders in suppressing DA and lowering FRL in the short run *ceteris paribus*. Especially, the interaction results of IO*ACBLS which hitherto was a positive relationship, but IO influences ACBLS' behaviour to be a significantly negative relationship with DA and FRL. The result is consistent with (Elyasiani et al., 2017; Ghafran & Yasmin, 2018). This further indicates that IO could instill confidence in FRQ.

Further, IOs on the board are more effective monitoring tool that leads to FRQ, thus, enhancing AC effectiveness. Moreover, the result is consistent with (Mitra et al., 2007) who reported that in a less corporate risk environment, the presence of IO could improve on the ability of auditors to reduce the high-risk engagement effort, resulting in suppressing DA and lowering FRL. It is also consistent with the agency theory as a potential mechanism to reduce conflict and increase investors' confidence.

4.5 Generating Long-Run GMM Coefficients

In generating the long-run coefficients, only variables that are significant in the short-run are considered and are computed using the formular as provided in equation 4 as depicted;

$$\beta_k \div [1 - \phi]$$

The estimation for DA and LFRL models respectively is based on the number of variables that were significant in the short-run estimations only to determine the long-run effect of shareholders' performance in the AC. Thus, the regression result is presented in Table 6.

Table 6: Long-run Coefficients for Discretionary accruals and financial reporting lag models

DA	Coef.	z-stat	*P>Value*	LFRL	Coef.	z-stat	*P>Value*
ACSFE	-0.1938***	-3.28	0.001	ACSFE	-0.3157***	-3.24	0.001
ACSCr	-0.5024***	-4.45	0.000	ACSCr	-0.4942***	-3.11	0.002
ACBLS	0.0503*	1.79	0.073	ACBLS	0.2606***	3.25	0.001
EXAUD	-0.4861***	-23.23	0.000	EXAUD	-0.5648***	-5.43	0.000
LFRL	0.0493**	2.16	0.031	DA	0.1282***	4.87	0.000
IO	1.7315*	1.93	0.053	IO	-6.4716***	-2.71	0.007
IO*ACSFE	-2.4575***	-5.42	0.000	IO*ACSFE	-3.2842***	-2.81	0.005
IO*ACSCr	-1.8424***	-5.31	0.000	IO*ACSCr	-1.3126**	-2.23	0.026
IO*ACBLS	-0.4705***	-3.15	0.002	IO*ACBLS	-2.4663***	-4.26	0.000
IO*EXAUD	-0.6948***	-3.80	0.000	IO*EXAUD	-3.8255***	-7.29	0.000

Source: Authors' Computation (2023)
Note: *, ** and * denote significance levels at the 10%, 5%, and 1% respectively**

The results indicate that a percentage increase in the number of AC's shareholders as ACFE and ACSCr is related with 19% and 50% decrease in EM respectively in the long-run at the 1% significant level, on average *ceteris paribus*. Although the effect of shareholders in the short-run is better in reducing the magnitude of EM with 22% and 57% respectively. The behaviour of ACBLS remained unchanged even in the long-run. Similarly, the result of EXAUD indicates 49% decrease on EM in the long-run while as against 55% decrease in the short-run. Overall, the result indicates that there's lower performance of AC shareholders in the long-run than in the short-run. Even the interactions of IOs suggest lower performance in the long-run that in the short-run. Despite the low performances, AC with shareholders provided improvement in reducing the magnitude of EM in Nigeria.

In contrast, the result of FRL model suggests that a percentage increase in the number of ACFE and ACSCr is associated with 32% and 49% decrease in financial reporting delays respectively in the long-run at the 1% significant level, on average *ceteris paribus*. It shows a significant increase if compared with the short-run effect of shareholders' performance of 15% and 24% respectively. The ACBLS effect has also ballooned to about 12% in the long-run. The result further revealed that EXAUD effort in the long-run slightly improved to 56% as against 55% in the short-run. Consequently, this justified the need for IOs to moderate the relationship of AC members in discharging their responsibilities (Hassan & Ahmed, 2012). In all, AC shareholder is associate with high performance in reducing FRL in the long-run with 32% and 49% than 15% and 24%, 55% and 56% respectively. It also suggests that IOs are relevant in their effort to enhance FRQ in Nigeria.

5. Conclusion and Recommendations

The paper examines the effect of some features of AC on DA and FRL on the NGX from the non-financial sector, thus providing a contemporary analysis of the AC's influence on DA and FRL. Specifically, the study examines the impact of ACSFE, ACSCr, and ACBLS on DA and FRL. The paper also investigates the interaction effectiveness of IO owing to a regulatory function given to it by Part C Article 27 of the 2011 revised CCG. The findings establish that shareholders in the AC are effective in suppressing DA and reducing FRL. Thus, the presence of shareholders in the AC has a significant impact on audit effort as the result indicates that EXAUD could improve FRQ (Umar & Hassan, 2018).

Similarly, the interaction of IO influences on the performance of AC members, making them more effective in discharging their statutory tasks both in long-run and short-run respectively. Precisely, the interaction makes ACBLS, hitherto behaving contrary to theoretical assumptions, to act according to expectations with strong significant relationship with DA and FRL. Hence, its effectiveness in constraining EM and reducing FRL is eminent. The study recommends that countries whose AC is found to be ineffective could emulate the Nigerian type of AC structure. This paper further recommends that regulators and policy makers should within reasonable intervals review CG codes to protecting shareholders' interests.

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