Corporate Governance Mechanisms on Financial Reporting Quality of Listed Consumer Goods Companies in Nigeria

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DOI: https://dx.doi.org/10.47772/IJRISS.2025.907000498

Received: 12 July 2025; Accepted: 19 July 2025; Published: 25 August 2025

ABSTRACT

This study examined the effect of corporate governance mechanisms on financial reporting quality of listed consumer goods companies in Nigeria. Specifically, the study examined the effect board size, board independence, audit committee financial expertise, audit committee meetings and risk management committee on financial reporting quality proxied by earnings management measured using discretionary accruals. Ex-po facto research design was employed as data were extracted from published audited annual financial reports of 15 sampled listed consumer goods companies on the Nigerian exchange group for a period of 6 years from 2018 to 2023. The data collected were analyzed. Descriptive statistics, correlation and panel regression techniques was employed to explain the relationship between variables. Findings revealed that; board size, board independence and audit committee meetings revealed a negative relationship with discretionary accruals thereby reducing earnings management and increasing financial reporting quality of listed consumer goods companies in Nigeria. However, risk management committee showed an insignificant negative relationship with earnings management. Audit committee financial expertise has an insignificant but a positive relationship with earnings management, of listed consumer goods companies in Nigeria. The study recommended amongst others that consumer goods companies should firms to prioritize the composition and functionality of these governance structures to enhance reporting quality and mitigate earnings manipulation so as to improve financial reporting quality.

Keywords: Board size, Board independence, Audit committee financial expertise, Audit committee meetings, Risk management committee and financial reporting quality

INTRODUCTION

In recent years, concerns regarding the quality of financial reporting have gained significant attention across global markets. This is because the quality of financial reporting is crucial for ensuring the transparency, accountability, and credibility of financial statements, which are essential for decision-making by stakeholders, including investors, regulators and the general public. The quality of financial reporting ensures that financial statements are free from errors and material misstatements, accurately reflecting a company's economic activities. One of the critical measures of financial reporting quality is earnings management often assessed through discretionary accruals. Discretionary accruals refer to the portion of accruals in financial statement that are influenced by managerial decisions rather than by the economic reality of the company. The presence of excessive discretionary accruals typically indicates that earnings have been manipulated, which undermine the integrity of financial reporting.

This has raised concerns about the mechanisms that controls or govern financial reporting practices within companies, particularly in ensuring that financial statements reflect true and fair views of a company's performance. In Africa, and particularly within Nigeria, these issues are equally pressing. As many African companies are facing challenges related to weak corporate governance, inadequate financial reporting practices, and pervasive earnings, especially in rapidly growing sectors such as consumer goods. The lack of effective corporate governance mechanisms has often been linked to low quality financial reporting, which in turn, affects the reliability of financial statements and distorts the investments. In Nigeria, listed companies, including those in the consumer goods sector, have come under increasing scrutiny for their financial practices, which are often seen as lacking transparency. Given the complex business environment in Nigeria, characterised by issues such as regulatory lapses, political instability and economic uncertainty, the need for robust corporate governance to improve financial reporting quality has never been more urgent.

A central issue in addressing the quality of financial reporting is the role of corporate governance mechanisms. Corporate governance is the system, principles and processes by which companies are directed and controlled, mechanisms of corporate are the tools used to direct and control the activities of companies. Corporate governance mechanisms such as the structure and functioning of the board of directors, audit committees, and risk management have been identified as crucial elements in ensuring that companies produce accurate, truthful, and high-quality financial statements.

For instance, research has shown that a larger board size can provide a broader range of expertise and viewpoints, which may help in making more informed decisions related to financial reporting. Furthermore, board independence, especially when there is greater presence of non-executive directors, is thought to enhance objectivity and reduce the likelihood of biased financial reporting decisions. The audit committee plays a vital role in overseeing the financial reporting process especially in situation where the audit committee have members with strong financial expertise, they are better equipped to scrutinize financial reports and ensure compliance with accounting standards. Additionally, the frequency and quality of audit committee meetings are essential in ensuring that financial reporting issues are regularly addressed. Moreso, the Risk management committees which focus on identifying and mitigating risks, also contribute to improving the quality of financial reports by ensuring that risks are accurately reflected in financial statements.

The link between corporate governance and financial reporting quality is grounded in theories such as agency theory, signalling theory, which provides a rich framework for understanding how these corporate governance mechanisms impact financial reporting quality. Agency Theory highlights the conflicts between managers and shareholders where managers may have incentives to manipulate earnings for personal gain, but effective governance can mitigate this risk. The signalling Theory suggests that companies with strong governance mechanisms signal their reliability to external stakeholders, enhancing trust in their financial reporting.

Previous studies have consistently shown that corporate governance mechanisms have a direct impact on financial reporting quality. research in both developed and emerging markets. Studies such as Cheng (2021) observed excessively large boards beyond the scale and complexity of the company's operation as suggested by the Nigerian code of corporate governance, 2018. Might lead to coordination problems and less effective monitoring which could negatively impact FRQ due to difficulties in reaching consensus. The independent directors may reduce potential conflicts of interest, allowing them to provide objective oversight of financial reporting (Fodio & Oba, 2022), by critically evaluating financial information and ensuring its accuracy. Independent directors bring impartiality to the board's oversight functions, including reviewing financial statements and ensuring that management adheres to ethical and regulatory standards (Akinsulire, 2021). Their independent judgment may greatly contribute to the integrity of financial reports by challenging management decisions that may compromise FRQ. However, Bai et al. (2020) reported mixed results in Chinese firms, suggesting that the effectiveness of board independence might be influenced by the overall governance environment and regulatory context.

Lennox and Park (2023) found that firms with financially skilled audit committees in North America exhibited higher FRQ. In Nigeria, the consumer goods sector benefits from such expertise, as it helps address complex financial issues unique to the industry. Beasley et al. (2023) highlighted that firms with active audit committees demonstrated lower levels of earnings manipulation and higher transparency in European markets. Hoyt and Liebenberg (2021) noted that risk management committees are particularly effective in high-risk sectors. In Nigeria, Fodio and Oba (2022) observed that while the integration of risk management committees is still developing, their potential to enhance FRQ in the consumer goods sector is significant

However, while there are many studies that have highlighted the importance of corporate governance in ensuring transparency and financial reporting quality, there is a dearth of studies focused on how Nigerian consumer goods companies manage earnings and produce high-quality financial reports. After the introduction of the 2018 governance code. Moreso, there is sparse or limited empirical evidence on the effect of key corporate governance such as board size, board independence, audit committee financial expertise, audit committee meetings and risk management committee and their effect on financial reporting quality particularly the risk management committee. Gaps exist in the specific mechanisms such as risk management committee which was introduced in corporate governance code 2018 to ensure that risk related to financial reporting are identified, assessed and mitigated through which corporate governance mechanisms influence on earnings management, especially in the consumer goods companies in Nigeria is not empirically established to the best of the researcher's knowledge.

Given the growing importance of transparency and accountability in the Nigeria's corporate sector, particularly in listed consumer goods companies there is need for a study that will address examine the effect of corporate governance on financial reporting quality in Nigeria. Therefore, it seeks to bridge the gaps identified in the literature by focusing on how corporate governance mechanisms such as board size board independence, audit committee financial expertise, audit committee meetings and risk management committee influence financial reporting quality, measured by discretionary accruals, in Nigerian listed consumer goods companies. This study aims to provide policymakers, regulators and investors with deeper insights into the effectiveness of corporate governance in enhancing financial reporting quality, contributing to more transparent and reliable financial markets in Nigeria.

Statement of the Problem

the relationship between corporate governance mechanisms and financial reporting quality has long been a subject of debate within accounting and finance literature. However, a comprehensive understanding of how specific corporate governance factors influence the quality of financial reporting remains underexplored, especially within the context of emerging market such as Nigeria. The consumer goods sector, a critical segment of the Nigerian economy, provides an ideal setting for such a study, given its distinctive governance challenges and importance in national economic development. While corporate governance structures are believed to enhance financial reporting quality, the extent and mechanisms by which board characteristics, audit committees and risk management frameworks influence financial reporting practices in Nigerian listed consumer goods companies have not been sufficiently investigated.

The practical gap lies in the lack of empirical evidence on how the specific corporate governance mechanisms such as board size, board independence, audit committee financial expertise, audit committee meetings and risk management committee directly impact the financial reporting quality in Nigerian. Although Nigerian regulators have implemented corporate governance code 2018, there is limited empirical evidence of whether these mechanisms, individually or collectively, have been effective in improving financial reporting quality, particularly in the consumer goods sector, which is often characterised by high volatility and regulatory complexity. Additionally, the existing literature on corporate governance and financial reporting quality in Nigeria has yielded mixed result. Some studies have shown a positive correlation between corporate governance and financial reporting quality, (Akeju and Babatude 2017) and (Amah and Ekwe 2019), while others have found negligible or even negative effect (kaka 2023) and (Ogbeide 2017). Moreover, studies focusing on discretionary accruals as a metric for financial reporting quality are scarce, particularly in emerging markets like Nigeria. This creates an opportunity to contribute empirical evidence on how these governance mechanisms specifically affect the quality of financial reporting, using a robust measure like discretionary accruals.

In addition, these studies failed to look at how these corporate governance mechanisms like board size, board independence, audit committee financial expertise, audit committee meeting and risk management committee influence FRQ in Nigeria. Board size and independence are critical in ensuring a balance between executive power and oversight, while audit committee with financial expertise are seen as essential for maintaining transparency and accuracy in financial reporting. The frequency of audit committees and the presence of risk management committee further ensure that companies remain vigilant in addressing financial reporting issues, especially in a volatile market like Nigeria. These variables are expected to interact in complex but influencing the quality of financial reporting, as captured by discretionary accruals, which reflects the extent of managerial discretion in financial statements.

There is need for the study to fill the existing gaps by providing a comprehensive analysis of how corporate governance mechanisms such as board size, board independence, audit committee financial expertise, audit committee meeting and risk management committee affect financial reporting quality, using discretionary accruals as a measure of reporting quality, with a focus on the listed consumer goods sector in Nigeria.

Objectives of the study

The main objective of this study is to examine the effect of corporate governance mechanism on financial reporting quality of listed consumer goods companies in Nigeria. The specific objectives are to:

a) ascertain the effect of board size on Discretionary accruals of listed consumer goods companies in Nigeria.

b) assess the effect of board independence on Discretionary accruals of listed consumer goods companies in Nigeria.

c) evaluate the effect of audit committee financial expertise on Discretionary accruals of listed consumer goods companies in Nigeria.

d) determine the effect of audit committee meeting on Discretionary accruals of listed consumer goods companies in Nigeria.

e) ascertain the effect of risk management committee on Discretionary accruals of listed consumer goods companies in Nigeria.

LITERATURE REVIEW

Financial Reporting Quality (FRQ)

Verdi (2006) defines financial reporting quality as the exact manner in which it shows information regarding business activity and its anticipated cash flow, intending to inform the shareholder about a company's operations. Martinez-Ferrero et al (2013) also defined financial reporting quality as the faithfulness of information conveyed in the financial reporting process. Financial reporting is also defined 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 (Tang, Chen, & Zhijun, 2008). It can be deduced from the above definition that for a financial statement to be regarded as possessing a high-quality attribute, it must be able to provide genuine authentic information about the economic performance of the firm. The financial statement of firms at the end of a financial year should have some element of truth in it. This is termed quality to increase the confidence of users.

Jonas and Blanchet (2000) describe the two general perspectives widely used in assessing the quality of financial reporting. The first perspective is based on the needs of users. Under this perspective, financial reporting quality is determined relative to the usefulness of the financial information to the users of the information. This approach adopts the objective of General-Purpose Financial Reporting which is to provide information to users that is useful for making and evaluating decisions about the allocation of scarce users" (CPA Australia 2006). The second perspective of financial reporting quality is focused on the notion of shareholder/investor protection. This perspective defines quality financial reporting as full and transparent financial information that is not designed to obfuscate or mislead users (Jonas & Blanchet 2000). There is a fundamental distinction between these two perspectives of financial reporting quality.

The user needs perspective is mainly concerned with providing relevant information to users for making decisions, whereas the shareholder/investor protection perspective aims to ensure the information provided to users is sufficient for their needs, transparent and competent (Jonas & Blanchet 2000). Healey and Wahlen, (1999) note that financial reporting quality is undetermined when managers use judgments in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying performance of the company or to influence contractual outcomes that depend on reported accounting numbers.

Financial reporting quality reflects the ability of financial statements to show the true and fair view of the organizational activities without bias to both the shareholders and other users which might not be known to the organization, FRQ is measured using earnings management.

Earnings are frequently used to reflect a company's success and to communicate the company's value to investors. It is a company's profit that is accounted for in a specific time (typically a year) and is represented by net income in the income statement and a summary item in the financial statements. It serves as an indicator of how the firm has engaged in value adding activities. And serve as a signal in directing resource allocation in the capital market. Most present or prospective investors are expected to pay close attention to earnings, which are one of the most effective accounting pieces of information on the income statement that indicates the firm's financial strength, in order to make relatively basic assessments of the company's future prospects. Earnings are important indicators of a company's value-added operations (Mushfiqur, Mohammed & Jamil, 2013).

Earnings management is a set of managerial decisions that result in management failing to publish the genuine short-term, value-maximizing earnings. Earnings management can be advantageous in that it communicates long-term worth; it can also be harmful in that it hides short- or long-term value; and it can be neutral in that it reflects short-term genuine performance. Managed earnings are the outcome of production/investment decisions made before earnings are achieved, or accounting decisions made after true earnings are recognized that alter earnings statistics and interpretation.

While Malek (2018) defined earnings management as management discretion over external financial reporting that is exercised within GAAP by exploiting contracting flaws, stakeholders' bounded rationalities, and market information asymmetry through economic decisions, accounting treatment changes, or other sophisticated methods. Management's goal is to display earnings in a way that is different (up or down) from what they know in order to gain private gains while misleading stakeholders; nevertheless, such discretion is not always harmful to them.

Despite prior attempts to define earnings management, it has always been taken to be other notions such as fraud (Dechow & Skinner 2000), earnings quality (Dechow, Ge & Schrand, 2010), impression management and expectation management (Das, Kim & Patro, 2011). This is totally wrong as they differ in techniques and methods but usually have similar motive; which is to present the firm in good light and the management, as being effective and efficient. The key variations between these activities can be seen in their level of aggressiveness, violations of accounting norms, management control, and financial statement numerical vs. narrative focus. Earnings management may result in reported earnings being increased or decreased. It is poisonous if it contributes to the reduction of firm value, but advantageous if it allows for the future signaling of more information about the firm.

According to Musfiqur, Mohammad and Sharif (2013), these several approaches are grouped under two approaches through which managers can achieve earnings management: by accounting choices or by operating decisions. Accounting choices include whether to apply new standards or wait for them to become mandatory. Any accounting decision that deviates from GAAP becomes illegal. As a result, the freedom provided by GAAP could be used to change reported earnings without affecting the underlying cash flows.

While in using operating decisions, managers could change operating decisions such as adjustments to maintenance expenses for the period, the implementation of special discounts or incentive programs just to help meet the revenue target for the period, or even investment or staffing decisions to manage the underlying cash flows that could affect the reported income. As a technique of managing profits, earnings management tries to control the cash flows of the period by combining the income and expenses related with the operations. These methods of earnings management are associated with real economic costs because, whether accounting or operating choices are used, they tend to influence the activities of future accounting periods.

Corporate Governance

Corporate Governance (GC) refers to the process that seeks to direct and control the affairs of an organization, to protect the interest of all stakeholders in a balanced manner with the application of the principles of openness, integrity, and accountability (Obeten, Ocheri, & John, 2014). Gabrielsen, Gramlicn, and Phenbong (2012) defined corporate governance as all encompassing-it concerns how corporate entities are managed and regulated, and involves accountability, trust, honesty, and stewardship on the one hand and supervision, control monitoring oversight, and ensuring quality financial reporting on the other hand. According to Nagw, Hala, and Gamal (2014), corporate governance refers to the structures and processes for the management and control of companies. It involves a set of relationships between a company's management, its boards, its shareholders, and other stakeholders in a way that provides the structure through which the objective of the company is set, and the means of attaining those objectives and monitoring performance are determined.

Mechanisms of corporate governance relates to the tools, techniques and instruments via which accountability is ensured; it is the various medium through which stakeholders monitor and shape Behaviour to align with set goals and objectives. Adekoya (2012) defined corporate governance mechanism as "the processes and systems by which a Country's company laws and corporate governance codes are enforced". These mechanisms are adopted in accordance with organizational needs, objectives and value while some countries have preference for some corporate mechanisms some do not.

Mechanisms of Corporate Governance

Scholars have suggested various mechanisms of corporate governance system. These attributes are known to influence firms' decision-making process and thus play an important role in controlling managers' discretionary power, earnings management practices, financial reporting process and the overall performance of firms (Puni & Anlesinya, 2020). Some of the corporate governance used in this study include; audit committee independence, audit committee meetings, board financial expertise, board independence. these mechanisms impact on financial reporting quality and earnings management practices.

Board size

A board is a group of persons responsible for monitoring a firm's operations, advising top management and making strategic decisions that may affect the performance and sustainability of a firm. The entire number of executive and non-executive board members is referred to as the board size. A successful Company is headed by an effective Board which is responsible for providing entrepreneurial and strategic leadership as well as promoting ethical culture and responsible corporate citizenship. As a link between stakeholders and the Company, the Board exercise oversight and control to ensure that management acts in the best interest of the shareholders and other stakeholders while sustaining the prosperity of the Company. ensuring the integrity of annual reports and accounts and all material information provided to regulators and other stakeholders

Board Independence

Board independence is a corporate governance principle that advocates for separation between management and governance of the firm, such that the board should be free from undue influence by the company's management team and any other influence that may impair its ability to transparently and objectively discharge its corporate governance duties (Lawal, Nwanji, Opeyemi & Adama, 2018). The Nigerian Code of Corporate Governance (2018) recommends an appropriate mix of executive directors, non-executive directors and independent non-executive directors (independent directors) "relative to the scale and complexity of the company's operations". Executive directors are both employees of the company and at the same time, board directors. They have a dual role as members of the company's management team and board of directors. The presence of independent directors on a board can help to segregate the management and control tasks of a company and this is expected to offset inside members' opportunistic behaviours (Eleng, Okwo, Uguru & Chukwu, 2022). In addition, independent directors generally have stronger and extended engagement with wider groups of and they tend to have a broader perspective that is likely to result in greater exposure to performance requirements.

Audit committee financial expertise

Audit Committee Financial Literacy typically demonstrated by employment, experience or certification in accounting or finance (Price Water House Coopers/11A, 2000). Financial expertise is the competency possess by an individual who has acquired the accounting and finance qualifications that enables him/her to perform the duties of a finance expert (Albring, et al., 2014). Audit Committee Financial Expertise refers to the specialized knowledge, qualifications, and experience in accounting, auditing, and finance possessed by members of an audit committee. This expertise enables them to oversee financial reporting processes effectively, ensure compliance with relevant accounting standards, and mitigate financial misstatements. Financial expertise is typically demonstrated through formal education in finance or accounting, professional certifications (e.g., CPA, ACCA), or significant practical experience in financial management. Regulatory frameworks, such as the Companies and Allied Matters Act (CAMA) 2020 and the 2018 Nigerian Code of Corporate Governance, emphasize the importance of including at least one member with financial expertise in the audit committee to enhance oversight capabilities.

Audit committee meetings

Audit committee meetings are formal gatherings where the audit committee oversees financial reporting, internal controls, risk management, and audit processes. These meetings ensure the integrity and transparency of financial statements, compliance with regulations, and the effectiveness of internal and external audits (DeFond & Francis, 2005). According to Xie, Davidson, and DaDalt (2003), the number of AC meetings reflects their monitoring effectiveness, and the literature uses frequency of meetings as a proxy to measure audit committee activity. ACs that meet more frequently are better informed about the company circumstances (Al-Matari, 2013), and provide a more effective oversight and monitoring mechanism of financial activities, which includes the preparation and reporting of company financial information. Beasley, et al. (2009) claim that members of the AC are committed to meaningful and substantive meetings which still in turn lead to better monitoring and improve the financial reporting process. Previous literature contends that the frequency of AC meetings decreases the degree of a financial restatement. Indeed, Habbash (2015) state that the meetings that are more frequent decrease discretionary accruals and increase FRQ.

Risk Management Committee (RMC)

Risk Management Committee (RMC) is a vital component of corporate governance, dedicated to identifying, assessing, and mitigating risks that could impact an organization’s objectives and operations. According to the 2018 Code, the committee is responsible for ensuring that the organization has a robust and effective risk management framework in place to identify, assess, and manage risks. Ensuring compliance with all relevant legal and regulatory requirements of the organization’s risk management practices in line with applicable laws, regulations, and industry standards. It plays a vital role in ensuring the quality of financial reporting by identifying, assessing, and mitigating risks that could compromise the accuracy, reliability, and integrity of financial information. The committee’s efforts focus on identifying risks such as errors, fraud, or non-compliance with accounting standards, which can undermine the credibility of financial reports. One of the critical responsibilities of the RMC is overseeing the design and implementation of internal controls to ensure accurate and reliable financial reporting. It is instrumental in identifying, assessing, and mitigating risks, thereby safeguarding the organization's assets and ensuring alignment with strategic objectives. The RMC's role has become increasingly significant as organizations face a complex risk landscape, characterized by financial, operational, strategic, and compliance challenges (White and Martin, 2024).

Theoretical Review

The concept of corporate governance mechanisms and financial reporting quality is anchored on four theories;

Agency theory and Signaling theory. This is because these theories dwell basically on stewardship of the management to the owners of the company as well as monitoring the activities of the management about the operational activities and financial reporting.

Agency Theory

Agency theory is the theory that underpins this study. The concept of the agency is rooted in economic theory. Jensen and Meckling (1976) propounded the agency theory, and they described this theory as a contractual relationship where one party called the agent has a fiduciary responsibility to carry out activities and make decisions on behalf of another party called the principal. They proposed this theory in order to understand the interest of principals and agents, as well as resolve conflicts that arise. The directors of publicly listed firms are the shareholders' representatives in this context. Shareholder’s delegate to the directors, the authority to oversee the management of a company and in executing their contractual duties, the directors are responsible for ensuring that financial statements are prepared in a manner that complies with the relevant laws, gives a true and fair view of the financial position and aids accurate decision making by the users (Salah, 2010). In literature, academics and scholars commonly investigate the role of the board on profitability and a number of them have concluded that to improve company performance, an effective monitoring framework should be established to keep the activities of directors and senior management in check (Gallego, et al., 2010).

As with every agency relationship, the shareholders and directors often have conflict of interest especially in the area of profit retention and risk appetite. The agency problem and conflict stem from the fact that it is impossible for directors to fulfil the interest of the equity holders 100% without considering their own interests/welfare. Eisenhardt (1979) and Panda & Lespha (2017) 17 highlighted that to minimize losses and maintain a harmonious relationship between the directors and shareholders, certain costs need to be incurred and these are called the agency cost. These costs are either in the form of residual losses, monitoring or bonding costs. The idea is supported by Damilola (2018). They highlight that the annual audit of the financial reports is an example of monitoring agency costs. Irrespective of what these costs are and the magnitude, they are captured and reflected in the share price of a company. (Krayyem, 2019).

This theory is often applied in the context of corporate governance to understand how to align the interests of shareholders and managers. Financial reporting quality, on the other hand, pertains to the accuracy, transparency, and reliability of a company's financial reports. The relationship between agency theory and financial reporting quality is intricate and involves several key aspects namely; information asymmetry. Information asymmetry is a central concept in agency theory. It refers to situations where one party has more information than the other, leading to potential conflicts of interest. High financial reporting quality helps mitigate information asymmetry between managers and shareholders. Accurate and transparent financial reports provide a more reliable picture of the company's performance, reducing the potential for opportunistic Behaviour by managers.

The principal-agent relationship is fundamental to agency theory. Principals (shareholders) hire agents (managers) to act on their behalf, but conflicts may arise due to differing goals and risk preferences. Quality financial reporting serves as a mechanism to align the interests of principals and agents. It helps shareholders monitor the actions of managers, promoting accountability and reducing the agency costs associated with information asymmetry. Agency theory suggests that effective monitoring and control mechanisms are crucial to mitigate agency problems. This includes mechanisms like performance-based incentives, contracts, and corporate governance structures. Accurate financial reporting is a key component of monitoring and control mechanisms. Shareholders and other stakeholders rely on financial reports to assess management performance, make informed decisions, and hold executives accountable.

While agency theory has provided valuable insights into understanding the relationships and conflicts within corporations, particularly between principals (shareholders) and agents (management), it is not without its criticisms. Agency theory often relies on simplistic assumptions, such as the rationality of individuals and the emphasis on financial incentives as the primary motivator. Critics argue that human behaviour is more complex, and motivations extend beyond simple financial rewards. Agency theory tends to prioritize shareholder interests to the detriment of other stakeholders. This focus on shareholder primacy may overlook the broader social responsibilities of corporations and lead to decisions that prioritize short-term gains over long-term sustainability. The theory places significant emphasis on contracts and financial incentives as mechanisms to align interests. Critics argue that an excessive reliance on contractual arrangements may foster a narrow, transactional view of relationships, potentially neglecting the importance of trust and ethical considerations.

Signalling Theory

Signalling theory was originally developed to clarify the information asymmetry in the labour market (Spence, 1973) it has also been used to explain voluntary disclosure in corporate reporting (Ross, 1977). The theory argues that the existence of information asymmetry can also be taken as a reason for good companies to use financial information to send signals to the market (Ross, 1977). Information disclosed by managers to the market reduces information asymmetry and is interpreted as a good signal by the market. With an intent to signal their performance, management of a company will engage in earning management (Sun & Rath, 2008). Further, the theory depicts that managers manoeuvre earnings to convey their inside information about firms' prospects and thus it serves as a signalling mechanism. Managers engaging in earnings management to creating a smooth and growing earnings string over time that will enable them affect the stock price.

Studies have modelled some form of information asymmetry and showed earning management as rational equilibrium Behaviour (Ronen & Sadan, 1980 and Demski & Patell, 1984). These studies documented signalling evidence of earnings management. Further, the signalling perspective also implies that earning management is sometimes demanded by shareholders. Beidleman (2019) argue that shareholders will demand for earning management for two reasons. First, managers can reduce the cost of capital through a smoother, more predictable income stream. Second, Dye (2018) states that a more stable income stream influences prospective investors' perception of firm value. Easton and Zmijewski (2020) revealed that current shareholders will sell their shares to the next generation of future shareholders and managers will act on behalf of the current shareholders and has an incentive to manage earnings for their advantage.

Empirically, several studies have studied signalling influence on reported earnings and have concluded that performance measures, namely: profitability, firm size and liquidity, motivate managers to engage in earning management (Watson, Shrives & Marston, 2019). The theory argues that directors who believe their company can perform better than other companies will signal its shareholders in order to attract more investments. Directors may do this in a sort of disclosure in excess of any information that is required by regulations. Signalling theory suggests that when a corporation's performance is good, managers will signal companies' performance to their investors, stakeholders and the market by making disclosures that poorer companies cannot make. By enhancing disclosures, directors wish to receive more benefits: a better reputation and the firm's value will increase (Abdulla, 2011).

Signalling theory is a framework that focuses on how individuals or entities communicate information to external parties to convey specific characteristics or qualities. In the context of corporate governance and financial reporting quality, signalling theory is highly relevant and plays a crucial role in understanding how companies communicate their financial health, managerial competence, and commitment to transparency. The theory addresses the issue of information asymmetry between management and external stakeholders. Through financial reporting, companies signal their financial condition, operational performance, and overall health, reducing the information gap between insiders and outsiders. Also, the theory emphasizes that high-quality financial reporting serves as a positive signal to investors, creditors, and other stakeholders. Companies that invest in transparent and accurate financial reporting are signalling their commitment to providing reliable information, enhancing trust and confidence in financial statements. Through financial reports and corporate disclosures, managers can signal their competence and expertise in managing the company. Well-prepared financial statements and comprehensive disclosures can be interpreted as signals of managerial competency and diligence.

Signalling theory, while providing valuable insights into how entities communicate information to external parties, is not immune to critiques, especially in the context of corporate governance and financial reporting quality. Signalling theory assumes that both the sender and receiver of signals are rational actors. Critics argue that this assumption oversimplifies human Behaviour, neglecting the impact of emotions, cognitive biases, and bounded rationality in decision-making. Signalling relies on the interpretation of signals by external stakeholders. However, signals may be misinterpreted, leading to inaccurate assessments of a company's financial health or management competence. This can result in misinformed investment decisions.

Empirical reviews

Amanamah (2024) examined influence of board size on the quality of financial reporting inside enterprises in Ghana. The extensive inquiry was conducted using a dataset consisting of 650 observations and encompassing the timeframe from 2009 to 2021 using SPSS Process version The findings of this study revealed a significant inverse correlation between the size of the board and the level of compliance with International Financial Reporting Standards with a correlation coefficient of -0.056. With a correlation coefficient of 0.003, the analysis revealed that there is no linear association between Board Gender Diversity (BGD) and International Financial Reporting Standards. With regards to Independent Audit Committee with a correlation coefficient of around 0.068, the findings of the study indicated a statistically significant positive relationship between the presence of an Independent Audit Committee and the level of compliance with International Financial Reporting Standards. This study focused on the influence of board size, board gender diversity, independent audit committees, and audit fees on compliance with International Financial Reporting Standards (IFRS) in enterprises in Ghana, with an emphasis on mediation through financial leverage. However, it did not address earnings management as a measure of financial reporting quality, nor did it explore the impact of specific corporate governance mechanisms such as risk management committees. Additionally, the study's temporal scope (2009–2021) excludes the potential influence of recent developments in corporate governance practices.

Ogullah and Sylva (2022) investigated the impact of board size on earnings management in Nigerian listed companies. The study's main objective was to analyse how board size influences earnings management, with a focus on Nigerian firms. The independent variable was board size, and earnings management, measured through discretionary accruals, was the dependent variable. Control variables include firm size, profitability, and leverage. The study covered the period from 2010 to 2019, using a sample of 80 Nigerian listed companies. A quantitative research design was adopted, and the study uses a panel data regression model to analyse the relationship between board size and earnings management. The findings revealed that larger boards are associated with lower levels of earnings management, implying that bigger boards enhance financial reporting quality by improving governance oversight. This study is directly relevant to the current research as it focuses on Nigerian firms and the relationship between board size and earnings management. However, it would have been more comprehensive if it included other governance mechanisms such as audit committees and risk management committees, which are central to the current study.

Faozi et al. (2024) investigated the impact of board characteristics and bank-specific factors on audit quality in Indian listed banks. Independent variables used in this study include; board of directors' independence, board of directors' diligence, promoters board of directors. Audit quality was proxied by Big-4, audit change, auditor partner change, board of directors' size. Banks specific characteristics are; earnings per share, leverage, bank size and bank age. The study sample size consisted of 38 banks listed on the Bombay Stock Exchange. The data covered 10 years from 2010 - 2019. The study utilized logistic panel regressions to estimate the findings. The results reveal that board independence and diligence have a significant negative impact on the selection a Big-4 auditor and auditor change. The results also indicate that board size and promoters are found to have a significant negative influence on selecting a Big-4 auditor. However, board independence change exhibits a moderating influence that weakens significantly and negatively the selection of a Big-4 auditor and switching from a non-Big-4 to a Big-4 auditor. The study makes a unique contribution to the existing literature by investigating the moderating effect of board independence change. The findings are grounded in agency and stakeholder theories, thereby enhancing our comprehension of how board independence change could influence information asymmetry and agency problems. Since there is limited knowledge and importance surrounding this issue, particularly within the context of India's financial institutions, this study is critical, as their business practices serve as a model for other corporations. The study examined board characteristics and bank-specific factors influencing audit quality in Indian listed banks, with a focus on variables such as board diligence and promoters. However, it did not investigate financial reporting quality as a dependent variable or use earnings management as a proxy for financial reporting quality. Moreover, the study excluded risk management committees and audit committees as part of corporate governance mechanisms. Its focus on banks also limits its applicability to other sectors, such as consumer goods companies, which may exhibit different dynamics.

Bello et al. (2024) investigated the moderating effect of firm size on the relationship between board independence and financial reporting quality of listed oil and gas companies in Nigeria. The variables used in the study include; board independence, board size, firm size (independent variables). Financial Reporting Quality was measured using modified Jones (1995) Model where discretionary accrual was used to proxy. The study employed a quantitative research design and the populations of the study were all the oil and gas companies listed on the floor of Nigerian Exchange Group from 2012 to 2021. The study used ten (10) oil and gas companies as the population and sample size. The study further used panel regression technique as method for data analysis. The result of the direct relationship revealed that board independence and board size negatively and significantly influence the financial reporting quality of listed oil and gas companies in Nigeria. In the case of moderated effect, the results indicate that firm size does not significantly moderate the influence of board independence on the financial reporting quality of listed oil and gas companies in Nigeria. Based on the results obtained, it can be concluded that the interaction between firm size and board independence does not have a significant impact on the financial reporting quality of listed oil and gas companies in Nigeria. This study explored the moderating effect of firm size on the relationship between board independence and financial reporting quality of listed oil and gas companies in Nigeria. While it utilized discretionary accruals as a measure of financial reporting quality, it did not consider the influence of other corporate governance mechanisms such as audit committees and risk management committees. Additionally, the study excluded consumer goods companies, and its analysis was limited to firm size as a moderating variable, without considering other possible moderators like risk management practices or regulatory changes.

Kioko and Kamau (2023) investigated the Role of Audit Committee Expertise in Enhancing Financial Reporting Quality in East African Corporates in the manufacturing, retail, and agriculture sector with a population of Publicly listed companies on the Nairobi Securities Exchange (NSE) and a sample of 50 firms over the period 2016–2021. The variables are audit committee financial expertise (independent variable) while financial reporting quality, measured using accrual quality as the independent variable. Data was collected from financial statements and governance reports and analyzed using regression analysis where it found a positive and significant relationship exists between audit committee financial expertise and financial reporting quality and concluded that audit committee financial expertise is a key determinant of financial reporting quality in East African corporates. The study recommended that firms should adopt governance frameworks emphasizing financial expertise within audit committees to align with global best practices.

Musa and Olajide (2023) investigated the impact of corporate governance mechanisms, including audit committee expertise, on financial reporting quality. It also examined the mediating role of audit committee expertise within Nigerian firms. A quantitative approach was employed using secondary data from 100 Nigerian firms listed on the Nigerian Stock Exchange between 2015 and 2022. Structural Equation Modeling (SEM) was utilized to explore the relationships among corporate governance mechanisms (independent variables), financial reporting quality (dependent variable), and audit committee expertise (moderating variable). Control variables included firm size and ownership structure. The study found that audit committee expertise positively mediates the relationship between corporate governance mechanisms and financial reporting quality. Board size and independence were also significant contributors. This research provides valuable insights into your focus on governance and earnings management. However, it does not target consumer goods firms and the timeframe (2015-2022) only partially overlaps with your focus (2018-2023). Sector-specific findings would enhance its applicability to your study.

Musa and Olajide (2023) assessed the influence of audit committee financial expertise on financial reporting quality, focusing on emerging markets like Nigeria from 2012 to 2021. Using a sample of 80 listed firms and Ordinary Least Squares (OLS) regression, they concluded that audit committee expertise positively impacts financial reporting quality by reducing financial misstatements. Although the study's findings resonate with your research on governance, its broader focus on financial reporting quality might not fully capture the specific role of earnings management, which serves as the key proxy for your study's dependent variable. Moreover, the study period does not completely overlap with the current period of 2018–2023.

Nuyen et al (2023) investigate the inefficiencies in audit committees, focusing on meeting frequency and effectiveness in controlling earnings management. The study's main objective is to explore how audit committee meeting frequency and effectiveness affect earnings management. The independent variables are audit committee meeting frequency and effectiveness, while earnings management was the dependent variable. The study covered the period from 2017 to 2022 and includes a sample of 100 firms listed on the Vietnamese stock exchange. A quantitative research design is used, and the study employs regression analysis to test the relationship between audit committee characteristics and earnings management. The findings suggest that frequent audit committee meetings significantly reduce earnings management, thereby improving financial reporting quality. While the study offers valuable insights into audit committee effectiveness, its focus on Vietnam limits its applicability to Nigerian firms due to differences in governance structures. Additionally, the study does not examine the interaction between audit committees and other governance mechanisms, such as board size or risk management committees, which could have provided a more holistic view of governance's impact on earnings management.

Brown and Robinson (2023) examined the relationship between financial expertise in audit committees and earnings manipulation in developed economies. A quantitative design was employed, analysing secondary data from 100 firms in developed economies (USA, UK, and Australia) over the period 2015-2021. Fixed-effects regression analysis was applied, focusing on financial expertise in audit committees as the independent variable and earnings manipulation as the dependent variable. Control variables included firm size, leverage, and audit firm size. The study found a significant reduction in earnings manipulation associated with audit committee financial expertise, particularly in developed economies. However, its focus on developed economies limits its relevance to Nigerian firms. The timeframe (2015-2021) only partially aligns with this research, and the study's exclusion of other governance mechanisms, such as risk management committees, is a notable limitation.

Gupta and Sharma (2022) explored how board audit committees influence earnings management, emphasizing governance quality as a moderating variable. A quantitative design using secondary data from 120 firms listed on the Indian Stock Exchange was adopted, covering 2015-2020. Moderated regression analysis assessed the relationship between board audit committees (independent variable), earnings management (dependent variable), and governance quality (moderating variable). Control variables included firm size, industry type, and leverage. The findings highlighted that governance quality moderates the relationship between audit committee characteristics and earnings management, reducing earnings manipulation. While the study's approach is innovative, its focus on Indian firms and earlier timeframe (2015-2020) limits its applicability to Nigerian consumer goods firms. Broader governance mechanisms could provide a more comprehensive view for the current research.

Hassan and Ahmed (2023) explored the influence of risk management committees on earnings management, focusing on firms in emerging markets. The independent variable is the effectiveness of risk management committees, while the dependent variable is earnings management. The study controls for firm size, ownership structure, and external audit quality. The period under study spanned from 2015 to 2022, with a sample of 120 firms across emerging markets, including Nigeria, India, and South Africa. The research adopts a quantitative design with panel data analysis. A fixed-effects regression model was used to analyze the data. The findings showed that the presence of effective risk management committees significantly reduces earnings management practices. This effect is particularly pronounced in emerging markets, where governance standards may be weaker. However, a critique of this study is that although it includes Nigerian firms, it does not focus specifically on the consumer goods sector, which may limit its applicability to this research. The study also controls for a range of factors, but it does not explore other governance mechanisms, such as audit committees or board characteristics, that could influence earnings management.

Oduro and Agyemang (2022) investigated the role of risk management committees (RMCs) in enhancing corporate governance practices and reducing earnings management within firms The independent variable was the presence and characteristics of risk management committees, while the dependent variable was earnings management. Control variables include firm size, industry type, and audit quality. The study covered the period from 2010 to 2020 and uses a sample of 75 firms listed on the Ghana Stock Exchange. The research adopts a quantitative analysis approach, utilizing secondary data from company reports. The analysis employs panel data regression. The findings indicate that the presence of active and skilled RMCs significantly reduces earnings management. Companies with well-structured RMCs are less likely to engage in earnings manipulation, thereby enhancing the integrity of financial reporting. However, a critique of the study is that while it provides valuable insights, it focuses on Ghana, and while there may be similarities in governance structures across sub-Saharan Africa, the findings may not be fully applicable to Nigerian consumer goods firms. Additionally, the study primarily focuses on the presence of risk management committees and does not delve deeply into other characteristics, such as the composition or frequency of meetings of the committees.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume IX Issue VII July 2025

METHODOLOGY

Introduction

This study adopted the Ex-post facto research design. The adaptation of this design is based on its ability to investigate relationships between variables without been manipulated or controlled. It's also allowed for retrospective examination between corporate governance mechanisms (independent variable) and financial reporting quality (dependent variable). This research relies sole on secondary data because the events or facts have already occurred and not subject to manipulation Akpa (2011). The population for this study consists of all the twenty (21) consumer goods companies listed on the Nigerian Stock Exchange as at 31st December 2023 (see Appendix I). the justification for this population is the Sectoral Significance where consumer goods sector is a critical component of Nigeria's economy, contributing significantly to GDP and employment, also because of a regulatory importance, Companies listed on the NSE are subject to stringent corporate governance and financial reporting requirements. Studying these entities provides insights into the effectiveness of governance mechanisms in a regulated environment. Also, the consumer goods sector often faces unique governance challenges, such as earnings management and regulatory compliance. This makes it a suitable context for examining the impact of corporate governance mechanisms on financial reporting quality.

The sample of the study comprised of 15 consumer goods companies listed on the Nigeria Exchange Group as at 31st December 2023 based on companies must be listed on the floor of Nigeria Exchange Group a year before the first year of this study (2018). The company's annual reports must be assessable for the relevant years of this study (2018 - 2023). Out of the 21 consumer goods companies, 6 companies that did not meet up with the two criteria were eliminated using the filtering method to arrive at 15 companies representing 71% of listed consumer goods companies in Nigeria.

This study employed secondary data as its primary source, obtained from the published annual reports of the sampled listed consumer goods companies in Nigeria, to analyze the relationship between corporate governance mechanisms and financial reporting quality, quantitative data was used such as annual Reports and Financial Statements of the sampled consumer goods companies listed on the Nigerian Stock Exchange (NSE) for the period 2018–2023 these reports provide both financial and non-financial information, including financial statements (e.g., income statements, balance sheets, and cash flow statements) and directors' reports on corporate governance practices, which are critical for identifying governance mechanisms.

The NSE Fact Book was utilized to confirm the listing status of the sampled companies during the study period and to ensure that all eligible companies were included in the study population.

Techniques of Data Analysis

The data collected from the published annual report of listed consumer goods companies in Nigeria was analysed using descriptive statistics and panel regression analysis. The choice of the techniques for this study were based on the merit of their strength in determining the variability of the variables in the study.

Descriptive statistics were employed to summarize and provide an overview of the study variables. Key metrics such as mean, standard deviation, minimum, and maximum values were computed to enhance the understanding of the dataset by summarizing its characteristics.

Definition of Variables

These study dependent and independent variables are discussed below:

Dependent Variable

The dependent variable is financial reporting quality proxied by earnings management, measured using the Discretionary Accruals the

Discretionary Accruals (DA): Discretionary accruals, which is the error term estimated from the modified cross-sectional Jones Model (Dechow, Sloan & Sweeney, 1995), is used as the proxy for earnings management. The modified cross-sectional Jones Model is considered appropriate as it is superior to other models of estimating discretionary accruals (Bello & Yero, 2011). In addition, the wide usage of the modified Jones model in accounting research is a clear testimony that it is better than other models of estimating discretionary accruals.

Independent Variables

The independent variables are: board size, board independence, audit committee financial expertise, audit committee meeting and risk management committee. These variables are discussed thus:

Board Size (BS): Board size refers to the total number of directors on a company's board, including executive and non-executive members. Kusnadi and Wei (2020) examined the role of board size in earnings management across firms in the Asia-Pacific region. A negative result is expected from board size and earnings management.

Board Independence (BIND): Board independence is the total number of independent, non-executive directors on a company's board. Lennox et al. (2023) adopted this definition in their recent analysis of board independence. The general provision in the CAMA 2020 appears to stipulate a minimum number of two directors for every company including a public company. With an inverse relationship expected from the independent variable and the dependent variable.

Audit committee financial expertise: refers to the presence of members with professional qualifications or substantial experience in accounting, finance, or related fields. Examples of critical qualifications highlighted in recent studies include Certified Public Accountant (CPA), Chartered Financial Analyst (CFA), or equivalent certifications. Al-Matari et al. (2022) utilized this definition in their study on audit committee effectiveness. Corporate governance code 2018 requires that at least one financial expert should exist on the audit committee. Studies such as Lennox and Park (2023) and Al-Matari et al. (2022) emphasize the importance of such qualifications in enhancing the rigor and reliability of financial oversight. An inverse relationship is expected from the variables.

Audit committee meetings: refer to the frequency and regularity of formal gatherings held by the audit committee to discuss financial reporting, internal controls, and risk management issues. Adewale and Ibrahim (2023) adopted this operational definition in their study of governance practices in the Nigerian consumer goods sector, highlighting the importance of consistent audit committee engagements in maintaining FRQ.

Beasley et al. (2023) emphasize that firms with frequent audit committee meetings demonstrate higher financial reporting quality and reduced instances of earnings manipulation. A negative relationship is expected between the variables.

Risk management committee is a group within an organization, typically composed of senior executives, board members, and risk experts, responsible for identifying, assessing, and mitigating financial and operational risks. Hoyt and Liebenberg (2021) and Fodio and Oba (2022) underscore the importance of such committees in enhancing FRQ, particularly in high-risk sectors. Beasley et al. (2023) recently employed this operational definition in their exploration of risk oversight mechanisms. The expectation is that the presence of risk management committee will reduce earnings management, thereby improving the financial reporting quality

Model Specification

In this study, the multiple regression model was used to test for the effect of corporate governance mechanisms on financial reporting quality (EM = DA) of consumer goods companies in Nigeria. The models for this study were adopted from Onuorah & Imene (2016) with little modification order to test for the effect of corporate governance on financial reporting quality of listed consumer goods companies in Nigeria, the following multiple regression models is employed.

The model is as follows

$$Financial\ reporting\ quality\ = f(Corporate\ Governance\ Mechanism\ ) \quad (1)$$

FRQ= f(BS,BIND, ACFEXP, ACM, RMC) *(2)*

$$FRQ_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BIND_{it} + \beta_3 ACFEXP_{it} + \beta_4 ACM_{it} + e_{it}\ \beta_5 RMC_{it} + e_{it} \quad (3)$$

Where;

FRQ = Financial reporting quality proxied by Discretionary Accruals (DA)

BS = Board Size

BIND = Board Independence

ACFEXP = Audit Committee Financial expertise

ACM = Audit Committee meeting

RMC = Risk Management Committee presence

β_0 = Model Constant

$\beta_1 - \beta_8$ = Model Coefficients

it = firm i at time t

e = Error Term

Table 3: Descriptive Statistics of the Study Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
DA	90	0.142793	0.065475	-0.1336	0.495602
BS	90	10.23333	2.868073	4	16
BIND	90	6.477778	1.861664	2	10
ACFEXP	90	1.044444	0.207235	1	2
ACM	90	3.866667	0.56489	2	5
RMC	90	0.755556	0.432165	0	1

Source: Results from Analysis

The descriptive statistics of the dataset from the sampled listed consumer goods companies in Nigeria used in the study are presented in table 3. It provides information relating to the number of observations, mean, standard deviation, minimum and maximum values of the variables under study. Table 3 presents the descriptive statistics presents an analysis of six variables: discretionary accruals (DA), board size (BS), board independence (BIND), audit committee financial expertise (ACFEXP), audit committee meeting (ACM) and risk management committee (RMC) with 90 observations.

The mean of discretionary accruals (DA) is 0.1428, suggesting that on average the sampled companies have a discretionary accrual of 14.28%. the standard deviation of 0.0655 indicating a moderately variability among the consumer goods companies during the study period. While the minimum and maximum values range from -0.1336 to 0.4956 indicating a broad spectrum of earnings management practices from conservative to aggressive.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume IX Issue VII July 2025

Board size (BS) has an average of 10 members with a standard deviation of 2.8681, indicating moderate variability in board size during the study period. The range of 4 to 16 members illustrate diversity in board size among companies, with some companies opting for small boards while some have preference for larger ones. This variability in board size can impact governance effectiveness, with larger boards potentially offering diverse perspectives but also facing coordination challenges.

Board independence (BIND) has an average of 7 members with a standard deviation of 1.86 indicating a significant difference on how the consumer goods companies structure their boards in terms of board independence. The number of independent director ranges from 2 to 10, reflecting the varying emphasis these companies' places on having independent oversight.

Audit committee financial expertise (ACFEXP) has an average of 2 members, with a standard deviation of 0.2072 indicating a variation in financial expertise that exist in the audit committee financial expertise, a range of 1 to 2 members indicates how most of the consumer companies include financial experts in their audit committee which is crucial for overseeing financial reporting quality.

The Audit committee meetings (ACM) averages four members with a low standard deviation of 0.5650, which suggest a relatively consistency in committee meeting across the companies. The meetings range from 2 to 5

The risk management committee (RMC) is indicated by a mean value of 0.7556, showing that approximately 76% of consumer goods companies have such committee, with a standard deviation of 0.4322 revealing high level of 0-1 the presence of risk management committees in companies. This means that companies with risk management committees tend to exhibit stronger governance practices aimed at addressing potential risks, while the absence of such committees may highlight governance gaps.

Table 4: correlation

(obs=90)

	DA	BS	BIND	AFEXP	ACM	RMC
DA	1.0000					
BS	0.2430	1.0000				
BIND	0.2250	0.4082	1.0000			
AFEXP	0.1617	-0.0555	-0.0265	1.0000		
ACM	-0.0061	0.0811	0.2604	-0.1310	1.0000	
RMC	0.0615	0.1462	-0.0348	-0.2537	-0.0583	1.0000

Source: Result from Analysis

Table 4 is the Pearson correlation results, which show the relationships between dependent variable measured by Discretionary accruals (DA) and the independent variables which include board size (BS), board independence (BIND), audit committee financial expertise (ACFEXP), audit committee meetings (ACM) and Risk management committee (RMC). The correlation values range from -1 to1, where the correlation result indicates a positive value indicates a positive relationship and a negative value indicates an inverse relationship with the variables.

The correlation between discretionary accruals (DA) and board size (BS) is 0.2430 which implies a positive relationship, this suggest that as board size increases, discretionary accruals tend to increase slightly, though the relationship isn't particularly strong. A potential effect is that larger board size might have a limited effect on financial reporting quality.

There is a positive relationship with between discretionary accruals (DA) and board independence (BIND) of 0.2250 this implies that higher board independence might be associated with higher discretionary accruals, although this is a weak relationship. The findings suggest that even though independent boards are meant to provide independent oversight, they might not always improve the financial reporting quality.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume IX Issue VII July 2025

The relationship between discretionary accruals (DA) and audit committee financial expertise (ACFEXP) is positive at 0.1617. This suggest that higher board size might lead to higher discretionary accruals. Although the relationship is weak which can be practically negligeable to have no impact on financial reporting quality.

The correlation between discretionary accruals (DA) and audit committee meetings (ACM) is a negative relationship of 0.0061. suggesting an increase in audit committee meeting might reduce discretionary accruals. Although this is a very weak relationship which might have almost no impact on financial reporting quality.

Discretionary accruals and the presence of a risk management committee (RMC) show a weak positive correlation of 0.0615, implying that the presence of a risk management committee has a positive effect on DA. Although weak, this might indicate that the mere existence of a risk management committee does not significantly improve financial reporting quality.

Other relationships among the independent variables reveal additional insights. For example, there is a moderate positive correlation between board size (BS) and board independence (BIND) of 0.4082, suggesting that larger boards may have slightly more independent directors, However, board independence (BIND) and audit committee financial expertise (ACFEXP) have a low negative correlation (-0.1310), implying that as board independence increases, the likelihood of having an audit committee financial expertise decrease.

Robustness Tests

This study employs regression analysis as its data analysis technique. The regression assumptions tests such as normality test, model fitness test, variance inflation factor for multi-collinearity, heteroskedasticity test, Hausman specification tests were carried out in order to ensure the validity of our results.

Random Effect regression results of the study model.

Number of obs	90		
R-Square	0.9324		
F statistics	275.67		
Prob(f change)	0.0000		
DA	**Coefficient**	**t**	**p>t**
BS	-0.3036	-2.41	0.016
BIND	-0.9646	-2.78	0.005
ACFEXP	0.0109	0.04	0.970
ACM	-1.6484	-4.20	0.000
RMC	-0.1088	-0.46	0.645
Constant	-0.0056	0.01	0.993

Source: Researcher's Compilation; 2024

Table 10 showed the RE regression result of BS, BIND, ACFEXP, ACM and RMC on DA of listed consumer goods companies in Nigeria. The regression was conducted using data collected from 15 companies for 6 years which resulted to a total of 90 observations. The result disclosed R-Square of 0.9324 implying that the effect of the independent variables board size (BS), board independence (BIND), audit committee financial expertise (ACFXP), audit committee meetings (ACM) and risk management committee (RMC) on the dependent variable Discretionary Accruals (DA) in this study is 93 percent. While 6.8 percent of the variation is influenced by factors not included in the model. The F-statistic of 275.67, with a p-value of 0.0000, indicates that the overall model is statistically significant.

The table also show that a decrease in board size (BS) will reduce the level of discretionary accruals by 0.3036. this means that reduction in DA will improve the financial reporting quality of consumer goods companies.

This implies that larger boards enhance the financial reporting quality by reducing earnings management. A potential reason for this is that larger boards may have more diverse expertise, which helps monitor management more effectively, leading to an increase in financial reporting quality. For board independence (BIND), an increase in members of BIND will reduce DA by 0.9646. this implies that

For board independence (BIND), an increase in members of BIND will reduce DA by 0.9646. this implies that an increase in board independence leads to a decrease in earnings management, thus enhancing the quality of financial reporting. Independent board members are typically more objective in their oversight roles, reducing the likelihood of manipulative practices in financial reporting.

ACFEXP has a positive coefficient of 0.0109 indicating a positive association between ACFEXP and discretionary accruals, this means that as ACFEXP increases earnings management increases thereby reducing financial reporting quality, audit committee members with financial expertise brings on board their financial expertise which ensure financial reports are not manipulative and also reports are prepared in accordance with the financial reporting standards. Audit committee meetings show a coefficient of -1.6484, this implies a negative relationship between ACM and DA. Whereby as ACM increases earnings management reduces thereby increasing the financial reporting. Audit committee members meet to deliberate on issues in regard to internal control and ensures financial reports have what it should be included, thereby ensuring all these are achieved through their deliberations during their meeting.

Risk Management Committee (RMC) coefficient for RMC is -0.1088, demonstrating an negative relationship between the presence of a risk management committee and financial reporting quality. This means that the presence of risk management committee reduces earnings management and increases financial reporting quality, though not significant, RMC increases financial reporting. The presence of such a committee likely strengthens internal controls, reducing the opportunity for discretionary accruals.

DISCUSSION OF FINDINGS

This study examined the effect of corporate governance mechanism on financial reporting quality of listed consumer goods companies in Nigeria. Specifically, the study considered corporate governance mechanisms variables such as board size, board independence, audit committee financial experts, audit committee meeting and risk management committee on financial reporting quality of listed consumer goods companies in Nigeria.

Board size and Financial Reporting Quality

The first hypothesis of the study which states that board size has no significant effect on earnings management of listed consumer goods companies in Nigeria. The findings revealed that board size has a negative significant effect on earnings management of consumer goods companies listed in Nigeria. This means that larger boards reduce earnings management thereby improve financial reporting quality of consumer goods companies in Nigeria. This is supported by the Agency Theory that a larger board can provide stronger oversight, reducing the agency problems between managers and shareholders. which enhances the monitoring of management's actions and discourages earnings management.

The result is in agreement with the findings of Ogullah and Sylva (2022), Elenge et al. (2022) Hewage and Amarasekera (2022), Twafik et al (2022) and Naser & Khaled (2020) who argued that larger boards bring a wealth of knowledge and expertise, which enhances oversight and improves the quality of financial reports. This finding disagrees with that of Nuyen, et al. (2023) and Akoprien (2021) who found that excessively large boards may become less effective in decision-making, as coordination challenges arise, potentially increasing inefficiencies in oversight. The difference in findings can be attributed to varying periods of regulatory environment. Studies showing a negative effect of larger boards often occur in environments where board governance structures are weak, while in more regulated environments, larger boards may function more effectively due to enhanced corporate governance practices.

Board independence and Financial Reporting Quality

In relation to whether board independence has significant effect on earnings management of consumer goods companies listed in Nigeria. findings from the study revealed that board independence has a negative significant effect on earnings of consumer goods companies listed in Nigeria. This indicates that greater independence of the board reduces earnings management (DA), which in turn improves financial reporting quality. Independent board members play a critical role in ensuring that management acts in the best interest of shareholders, they do this by providing impartial oversight, that increase the quality of financial reports. This finding aligns with Signaling Theory where the presence of independent board members signals a commitment to good governance and high-quality financial reporting.

This result is consistent with studies of Tsetim and Tyonande (2022) Naser and Khaled (2020) who found that independent boards are associated with higher-quality financial reporting and less earnings management. However, it is inconsistent with that of Akporien (2021) and Mansor et al. (2013) who found that the relationship between board independence and financial reporting quality is insignificant, weak or even negative in some cases, as independent directors may lack the necessary industry-specific knowledge to influence reporting quality effectively. The Differences in this result and previous studies may be due to the regulatory environments and corporate governance structures across different countries or sectors. This may be why some studies fund insignificant relationship between board independence and financial reporting quality. In contexts where governance standards are already strong, the addition of independent directors may not significantly alter reporting practices.

Audit Committee Financial Expertise and Financial Reporting Quality

The third hypothesis of the study, which posited that audit committee financial expertise has no significant effect on earnings management of listed consumer goods companies in Nigeria, was tested. The findings revealed that audit committee financial expertise has a positive but insignificant effect on earnings management. This suggests that while financial expertise on the audit committee may enhance oversight capabilities, it does not significantly deter earnings management practices. The results imply that audit committee members with financial expertise may lack the influence or authority required to effectively mitigate earnings manipulation. Alternatively, other factors beyond financial expertise, such as independence, authority, or the overall governance environment, may play a more dominant role in curbing such practices. The Stakeholder theory underscores the importance of balancing the interests of all stakeholders. The finding suggests that while financial expertise is crucial, other stakeholder-driven factors, such as ethical culture, independence, and accountability, might play a more critical role in reducing earnings management.

The findings align with the studies of Adeyemi and Fashola (2022), Musa and Olajide (2023), and Chen and Wang (2021). However, disagrees with the findings of Olayemi et al. (2020) and Brown and Robinson (2023), who found a significant negative effect of financial expertise on earnings management, attributing the outcome to enhanced audit committee authority and greater independence. The discrepancy in findings could be due to variations in corporate governance practices across different organizational or regulatory contexts. In settings with stronger enforcement of governance policies, financial expertise may play a more significant role, whereas in less regulated environments, its impact may be muted.

Audit Committee Meeting and Financial Reporting Quality

The fourth hypothesis of the study showed that audit committee meetings have no significant effect on earnings management of consumer goods companies listed in Nigeria was tested. The findings revealed that audit committee meetings have a significant and negative effect on earnings management. This indicates that an increased frequency of audit committee meetings is associated with a reduction in earnings management practices. The results suggest that regular meetings enhance the committee's ability to monitor and oversee financial reporting processes, thereby reducing opportunities for earnings manipulation. The significant negative effect implies that frequent and well-structured audit committee meetings provide a platform for in-depth review and discussion of financial reports, strengthening governance and minimizing errors or intentional manipulation. However, it also highlights the importance of the quality and focus of these meetings, as their effectiveness depends on the agenda and the level of engagement of the members during discussions. Resource Dependence Theory emphasizes the importance of leveraging organizational resources to address challenges. Frequent meetings allow the audit committee to utilize its expertise, time, and networks more effectively, ensuring comprehensive monitoring of financial processes and reducing earnings management.

The findings align with the studies of Elenge et al. (2022); Adeyemi and Fashola (2022); Musa and Olajide (2023); Twafik et al. (2022) and Chen and Wang (2021). However, the result disagrees with the findings of Nuyen et al. (2023); Brown and Robinson (2023), Gupta and Sharma (2022) and Olayemi et al. (2020) who argued that excessive audit committee meetings may lead to inefficiencies, redundancy, and diminished effectiveness in governance, potentially allowing for earnings manipulation to persist. The divergence in findings may be attributed to contextual differences, such as organizational culture, governance practices, and regulatory environments. This is because in well-regulated corporate settings, frequent audit committee meetings are likely to yield better financial reporting quality while in less structured environments, the mere frequency of meetings may not translate to improved FRQ outcomes.

Risk Management Committee and Financial Reporting Quality

The fifth hypothesis of the study, which states that the risk management committee has no significant effect on earnings management of listed consumer goods companies in Nigeria, was tested. The findings revealed that the risk management committee has a negative but insignificant effect on earnings management. This indicates that while the existence of a risk management committee may contribute to some reduction in earnings manipulation, its effect is not statistically significant.

The result suggests that risk management committees may face limitations in their ability to enforce policies or address earnings manipulation effectively. These limitations could arise from factors such as insufficient authority, lack of expertise in earnings management issues, or inadequate integration with other corporate governance mechanisms. The findings imply that for risk management committees to be effective in curbing earnings management, they require stronger governance structures, enhanced independence, and better alignment with organizational risk policies. Resource Dependence Theory supports this study stating that organizations depend on external resources and expertise to mitigate risks. The negative but insignificant effect in this case may suggest that while the risk management committee brings valuable expertise, it might not have sufficient internal resources or integration with other governance structures to effectively influence earnings management.

The findings align with the studies of Oduro and Agyemang (2022), Hassan and Ahmed (2023), and Lin and Chang (2021). However, the result disagrees with the findings of Uchenna and Nwafor (2020), Park and Kim (2022), and Smith and Johnson (2023), who reported a significant negative effect of risk management committees on earnings management, citing their role in identifying financial risks and promoting greater accountability. The divergence in findings may be attributed to differences in the regulatory environment, organizational culture, or the maturity of risk management practices across firms. In contexts with robust governance practices and enforcement mechanisms, risk management committees may have a more pronounced impact on reducing earnings manipulation.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The study provided empirical evidence on the relationship between corporate governance mechanisms (proxied by board size, board independence, audit committee financial expertise, audit committee meeting and risk management committee) and the financial reporting quality using earnings management (proxied by discretionary accruals) of listed consumer goods companies in Nigeria.

From the findings, the study concludes that corporate governance mechanism enhances the financial reporting quality of companies in Nigeria. Where an efficient board sizes and greater board independence are crucial for improving the quality of financial reporting by reducing earnings management, also an increase in the number of audit committee meetings enhances the quality of financial reports. However, an increase in the number of audit committee financial expertise increases earnings management and reduces financial reporting quality. in regard to risk management committee, the presence of the committee reduces earnings management, although this is not significant at the time due to recent introduction in the 2018 code of corporate governance, this will be significant as companies continue to adopt the risk management committee.

This study reaffirms the significance of these corporate governance mechanisms, particularly with respect to board size, board independence, audit committee financial expertise and risk management, in fostering better financial reporting practices among listed consumer goods firms in Nigeria. The findings underscore the need for firms to prioritize the composition and functionality of these governance structures to enhance reporting quality and mitigate earnings manipulation.

Recommendations

1. The Consumer goods companies in Nigeria should consider expanding or increasing their board size to enhance the monitoring function and reduce earnings management practices. This is because larger or optimal board may bring in more diverse perspectives, skills, and expertise, which can help strengthen oversight over financial reporting and reduce the manipulation of earnings. This results in higher financial reporting quality as fewer discretionary accruals are needed.
2. The management of Consumer Goods Companies should strengthen the independence of the board, particularly through increasing the number of independent directors and ensuring their active involvement in oversight roles. This is because independent directors have no conflicts of interest and are better positioned to oversee management decisions impartially. By increasing board independence, companies can enhance their ability to monitor financial reporting, thereby reducing the likelihood of earnings manipulation and improving the overall financial reporting quality
3. The study's findings suggest that relying solely on audit committee financial expertise may not be sufficient to curb earnings management, and may even contribute to a reduction in financial reporting quality. Therefore, Consumer Goods companies Management should diversify the skill sets of the audit committees as well as provide a continuous training on ethical reporting and enhance their focus on discretionary accruals. This will promote a culture of transparency and ethical financial reporting, which will greatly assist companies to reduce earnings management and improve the overall quality of their financial statements.
4. To further enhance the positive impact of audit committee, it is recommended that the Audit Committee members of Consumer Goods companies in Nigeria increase the frequency of meetings, ensure effective participation and resource allocation, and effectively focus on high-risk areas like discretionary accruals. So as to further sustain the reduction in earnings management and improve the quality of their financial reporting
5. To enhance the effectiveness of risk management committee, companies should strengthen the role of the committee in financial reporting oversight, increase the frequency of meetings, and ensure that committee members have relevant expertise in accounting and financial reporting. Additionally, better integration with the audit committee, independent reviews, and improved communication with external auditors can enhance the committee's role in improving financial reporting quality.

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