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Effects of audit committee attributes and corporate board activity on earnings quality of quoted consumer goods companies in Nigeria

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Abstract
Purpose: The study examined the effect of audit committee attributes and corporate board activity on earnings quality of listed consumer goods companies. Also, the effect of pooled Audit committee attributes using principal component analysis and board activity were examined on earnings quality.
Methodology: The study population was twenty-four listed consumer goods companies, while a sample of seventeen firms were purposively selected. Secondary data obtained from annual reports of the sample firms was analyzed using both random and fixed effects.
Results and Conclusion: Results showed that audit committee's financial literacy and expertise in audit and accounting have a significant negative effect on earning quality, while other audit committee attributes showed insignificant effects. Also, board size and leverage have negative significant effects on earnings quality. Furthermore, the results of pooled audit committee's attributes show an insignificant positive effect on earnings quality, while board size and board meetings have a significant negative effect on earnings quality. The study concludes that financially literate audit committee members, board size and frequency of audit committee meetings reduce management tendencies to manage earnings.
Implication of findings: The practical implication of the study's findings is that members of audit committee who are financially literate and size of the audit committee members have potential to dissuade management from opportunistic behaviour.

Keywords: Audit committees, board meeting, board size, corporate board activity, discretionary accruals, earnings quality.

1. Introduction

The capacity of the firm's management to manage the reported earnings opportunistically is constrained by the effectiveness of internal monitoring such as corporate boards and audit committees (Patrick et al. 2015). Board of directors and audit committee duties are to monitor the quality of the information contained in the financial statements and thereby dictate the conduct of its management to ensure that managers' actions are in line with the interests of the firm stakeholders (Mahmoud & Zohre, 2014). The recent cases of financial statement restatement in consumer goods industry in Nigeria (e.g., Cadbury Nigeria Plc) have resulted into huge number of losses in market capitalization due to the negative market reaction to financial restatement announcement by the affected firms. Thus, the focus of this study is to examine the effects of audit committee attributes and corporate board activity on the reported earnings. The board activity defined by board meetings connotes activeness in performing its monitoring roles in receiving periodic reports from the audit committee. The study also introduced firm age, leverage, corporate board size and return on equity as control variables to affirm the findings of the earlier researchers such as Qasim (2020), Alexander (2017) and Bassiouny, (2016) on these variables.

Furthermore, the empirical evidence on the relationship between audit committee attributes and corporate board activity on earnings quality of quoted firms in Nigeria remain unresolved. Some prior studies e.g., ThankGod and Onukoga (2018), which studied audit committee expertise impact on discretionary accruals for the period 2006 to 2016, Adegbie et al. (2019), which examined the effect of

auditing quality on earnings persistence, Alhassan et al. (2019), which evaluated the impact of audit committee expertise, its tenure and its share ownership on discretionary accruals of the Nigerian manufacturing firms for the period 2010 to 2019 and Abubakar et al. (2021) that investigated the relationship between audit committee size, expertise and its independence with firm's earnings manipulation reported mixed results. Prior studies have not been able to provide clear direction of the relationship between the study variables because of the scope of their studies and country's specific regulatory environment. There is therefore the need to further examine the effect of the relationship between audit committee attributes and corporate board activity on earnings quality of the quoted consumer goods companies in Nigeria.

The study is structured as follows: Section 2 discusses the literature review and hypothesis formulation; Section 3 gives details of the methodology to achieve the research objective. Section 4 presents the data and discusses the results, which Section 5 concludes the study with practical implications of the study.

2. Literature review

2.1 Audit committee attributes

These are audit committee independence, meetings, financial literacy, financial expertise, and size. The audit committee's independence relates to the independent non-executive directors. They are not involved in day-to-day running of the affairs of corporate entities and as such are expected to render independent opinions on all board activities. The frequency at which the audit committee holds their meetings is captured as the audit committee meetings. Furthermore, audit committee financial literacy represents members that could read and interpret financial matters relating to interest, compound interest, and inflation, while audit committee financial expertise refers to members with requisite skills and professional experience to read, analyze, and interpret financial statements. Finally, audit committee size relates to the number of both the executive and non-executive directors that constitute the audit committee.

2.2 Corporate board activity

A corporate board (also known as board of directors) is an assemblage of people elected by the firm owners as their representative in a corporate business. The board assumed the position of governing body of such a firm or corporation. The main goal is to ensure management acts for equity holders and deliver good returns on their investment. The role assigned to the board may only be accomplished through constant meetings to enable them to fashion out policies and guidelines in creating a conducive environment for effective oversight of the firm management. However, for the board to discharge its duties diligently and as it relates to this study, the study is looking at the board activity as measured by the board meetings. Corporate board of directors' meetings connote the levels of activities and the degree of its communication with one another (Sukeecheep & Farooque, 2013). The more frequently the board conducts its meetings, the higher the possibilities of the firm gaining more useful information from the board and the less the chances of earnings manipulation. During its meetings, the board reviews the activities of the audit committee and evaluate the interim audit report and make useful suggestions for the improvement of the committee functions (Olaoye & Adewumi, 2020).

2.3 Earnings quality

According to Mihalcea and Hada (2020), earnings that are in conformity with generally accepted accounting principles and align with conventionally adopted accounting practices and principles, will be viewed by the regulators as of high quality. It is expected that earnings enjoy perfect freedom from all acts of fraudulent activities. Moreso, it must indicate what can be termed as true and fair expression of

such a business whose financial position it is trying to explain. The importance attached to the earnings quality arose from the reliance placed upon it by several stakeholders in taking economic decisions (Yanaguibashi et al. 2017). Earnings quality as an important ingredient of financial statement serves as a guide in qualitative economic decision making. Relying on earnings of poor quality will lead the management into taking an uninformed decision that will impair the values of the firm (Zadeh et al., 2022).

Prior empirical studies show that earnings quality can serve as an attribute of dividend's propensity of the firm which was corroborated by the study Siladjaja et al. (2022), which finds a positive relationship between the business earnings quality and its ability to pay dividends. This means that the ability of a business to pay dividends to its shareholders is anchored by the improvement in its earnings quality. Further studies of Lyimo (2014), Yanaguibashi et al. (2017), Dampster and Oliver (2019) and Istianingsih (2021) show that earnings quality is better so far it is not suffering from encumbrance of earnings manipulations by the managers entrusted with the firms` assets. The implication of this statement is that the smaller the value of discretionary accruals, the higher the quality of earnings. In summary, a qualitative quality earning is the one that is highly persistent, more predictable, less prone to volatility, timely and contains lower level of earnings management. Previous studies on earnings quality have used three types of proxies to measure it. These are earnings persistence, discretionary accruals, and financial restatement.

Earnings persistence is based on the ability of reported earnings to persist and recur in the future (Ewert & Wagenhofer, 2015). Hence, absence of persistence quality is an indication that the reported earnings are transitory, and it is a bad quality of earnings for investment decisions (Asogwa et al. 2020). The discretionary accruals, on the other hand, are the component of total accruals which are not directly measurable, and it is prone to manipulation by the business management because Management is statutorily free to exercise discretion or freedom in choosing accounting policies and estimates. These accounting policies and estimates result in a financial statement which reports the earnings. Finally, Financial restatement is the act of restating the already published financial statements popularly referred to as restatement of earlier published annual reports when the firms noticed and amend errors in the previously published annual accounts (Mao, 2018). According to Velte (2023), financial restatements may be curtailed through an effective governance structure e.g., a diligent audit committee and corporate board, which perform supervisory functions of the financial reporting process in the listed firms.

2.4 Empirical literature and development of hypothesis

The duty of the audit committee and corporate board is to certify the quality of financial reporting system of a quoted firm and contribute meaningfully in minimizing earnings manipulation to achieve high earnings quality. There have been vast body of literature on the relationship between audit committee attributes (independence, size, meetings, financial literacy, and accounting expertise) and corporate board activity (board meetings) on earnings quality. The results of these studies have been diverse. For instance, audit committee independence has been found in prior studies to contribute significantly to decrease the earnings management practices of the studied firms (Sharma & Kuang, 2013; Iqbal et al. 2015; Yanaguibash et al. 2017; Chen & Komal, 2018; Khudhair et al. 2019). In contrast, Enomoto et al. (2015) examine corporate governance and discretionary accruals of the listed Pakistani firms. The study finds a positive relationship between the audit committee's independence and discretionary accruals. Also, in Nigeria, Fodio et al. (2013) established a positive significant association between the corporate audit committee independence and discretionary accruals. These contrary results may relate to the

institutional factors that exist in the business environment of the countries in which the studies are carried out.

Similarly, the size of audit committee was suggested by Chen and Komal (2018) to have impacted earnings quality positively because the large numbers will contain people with diverse skills to provide more effective skills in monitoring the financial reporting practices. Also, Park (2017) in a study of United States of America listed firms, which examine audit committee relationship with earnings management finds negative relationship between audit committee size and discretionary accrual. In Nigeria, prior studies also made contributions to the ongoing debate of the expected direction of the relationship between the audit committee size and discretionary accruals. For instance, Fodio et al. (2013) and Leslie and Okoeguale (2013) establish that the audit committee size is negatively related to the discretionary accruals. However, some studies that examine the relationship between audit committee size and discretionary accruals such as Ettredge et al. (2013), Xu and Zhou (2015), Rahman and Mansor (2018) find a positive relationship between audit committee size and discretionary accruals. Therefore, it could be inferred that while some scholars assert that an increase in size of audit committee decreases earnings management practices most especially with members that are financially literate and with accounting expertise, others assert otherwise. Meanwhile, empirical evidence shows that large size of either board of directors or audit committee members could be inefficient because of difficulty to harmonise different opinions. A reasonable size should therefore be determined by either considering the minimum requirements in the regulations or business net worth of the organisation.

A body of literature on the nexus between financial literacy, accounting expertise of audit committee members and earning management has shown negative relationship. This is because members of the audit committee that are financially literate and with experience in accounting and auditing profession contribute significantly to reducing earnings management practices of executive directors through knowledge-based supervision on financial reporting processes (Setiany et al. 2017; Rashid, 2018). Moreso, Chowdury et al. (2018) and Benamraoui et al. (2019) find a positive relationship between audit committee members` financial expertise and the financial reporting quality. They further assert that members of the audit committee are conscious of damages that their negligence can cause to their corporate reputation and at times there could be legal liabilities arising from their negligence. Hence, they were challenged to efficaciously supervise the financial reporting of the entity that engaged them. Because of those implications, they are to be armed with requisite professional knowledge for them to understand the requirements of their engagement. Contrary to these findings Hussain et al. (2023) assert that entities with accounting and financial experts are more likely to be involved in earnings management and projected that, the relationship is assumed to be stronger for firms that have high corporate governance standards. In further evidence of non-significant relationship between the financial expertise and management of abnormal production costs, Moses et al. (2016) find no relationship between the two variables.

Furthermore, many corporate regulators around the globe such as USA Sarbane Oxyley Act (2002), United Kingdom Combined Code (2003) made pronouncement on the expected minimum numbers of meeting that audit committee should have to perform its duties effectively. Also, in Nigeria, the Code of Corporate Governance recommends that audit committee members should meet at least once in a quarter of a year. There are different results from empirical studies on the effect of audit committee and board meetings. Umobong and Ibanichuka (2017) find a negative relationship between the company audit committee numbers of meetings with the values of discretionary accruals which signaled better earnings quality, while Chen and Komal (2018) find that audit committee frequency of meetings is positively

related to the values of discretionary accruals. Besides, Awwad (2020) and Mardessi (2021) find no link between the frequency of meetings of the audit committee members and the recurrence of earnings restatement of the observed firms. The foregoing arguments for and against simply serve as indication of conflicting opinions on the relationship that subsists between the frequency of audit committee meetings and the companies' financial restatement. Hence the need for more empirical evidence on the relationship between the variables.

Consequent upon the above, audit committee and board of directors are important mechanisms of business governance enabled by relevant regulations to carry out oversight activities over the integrity of financial reporting. Therefore, audit committee independence, financial literacy, accounting expertise, frequent meetings of the audit committee and board of directors, and reasonable size of the audit committee and board of directors are governance mechanisms that ensure management of agency costs embedded in relationships between corporate managers, shareholders, and potential investors of listed entities. These governance mechanisms reduce information asymmetry and ensure transparency in disclosure of corporate information, which has the potential to reduce opportunistic behaviours of corporate managers.

We therefore hypothesize thus:

H1: There is no significant effect of audit committee attributes and corporate board activity on earnings quality of consumer goods companies listed firms in Nigeria.

3. Methodology

The study adopted longitudinal research design to examine the effect of audit committee attributes and corporate board activity on earnings quality of listed consumer goods companies. The population of the study was the Twenty-four (24) listed consumer goods companies as at 31st December 2022 at the Nigerian Exchange Group (NGX), while seventeen (17) are taken as sample via purposive sampling technique. The sample taken have complete data for all years of observation (2006-2020). Secondary data on the dependent variable (earning quality proxy: discretionary accruals), and independent variables (audit committee attributes and corporate board activity) were sourced from the annual reports of the selected sample of the population.

3.1 Model specification

The econometric model was adopted from the study of Kamarudin and Ismail (2014) and Adegbie *et al.* (2019).

$$Y_{it} = \beta_0 + \beta_1 ACI_{it} + \beta_2\ ACF_{it} + \beta_3 ACM_{it} + \beta_4 ACS_{it} + \beta_5 ACX_{it} + \beta_6 BDS_{it} + \beta_7 BDM_{it} + \beta_8 LEV_{it} + \varepsilon_{it} \quad (1)$$

Where:
Y_{it} = Earnings quality variables, which are denoted in this study with discretionary accruals.
ACI_{it} = Audit committee independence for the cross-sectional data at time t .
ACF_{it} = Audit committee financial literacy for the cross-sectional data at time t.
ACM_{it} = Audit committee meetings for the cross-sectional data at time t.
ACS_{it} = Audit committee size for the cross-sectional data at time t.
ACX_{it} = Audit committee accounting expertise for the cross-sectional data at time t.
BDS_{it} = Corporate board size.
BDM_{it} = Number of board meetings held in a year.

LEV_{it} = Total book value of debt to total assets ratio.
β_0 = Constant.
ε_{it} = Error term for the panel data at time t.
$\beta_1 - \beta_8$ = Coefficients.

Model 1 was further econometrically expressed below as 3.2 after audit committee attributes: audit committee meeting, financial literacy, financial expertise, independence, and size, were pooled together using principal component analysis (PCA) to arrive at a single value for audit committee attributes (ACA). Thus, model 2 was generated and estimated along with model 1. This is being done to examine the combined effect of the audit committee attributes on the earning quality.

$$Y_{it} = \beta_0 + \beta_1 ACAit + \beta_2\, BDS_{it} + \beta_3 BDM_{it} + \beta_4 LEV_{it} + \varepsilon_{it} \quad (2)$$

Where:
Y_{it} = Earnings quality is proxied by discretionary accruals.
ACA_{it} = Pooled audit committee attributes (Using principal component analysis).
BDS_{it} = Corporate board size.
BDM_{it} = Number of board meetings held in a year.
LEV_{it} = Total book value of debt to total assets ratio.
β_0 = Constant.
ε_{it} = Error term for the panel data at time t.
$\beta_1 - \beta_8$ = Coefficients.

The *a priori* expectation of the stated model is $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \beta_8 < 0$.

The above models were therefore estimated to determine the relationship between audit committee attributes and earnings quality of consumer goods companies in Nigeria for the period 2006 to 2020.

3.2 Measurement of earnings quality proxy (discretionary accrual)

The modified Jones (1995) model, as stated below, was adopted as a model to estimate the study total accruals from which the dependent variable, discretionary accruals, were determined.

$$\frac{ACR_{it}}{TA_{it-1}} = \alpha_0 + \alpha_1 \left[\frac{1}{TA_{it-1}}\right] + \alpha_2 \left[\frac{\Delta REV_{it} - \Delta AR_{it}}{TA_{it-1}}\right] + \alpha_3 \left\{\frac{PPE_{it}}{TA_{it-1}}\right\} + \alpha_4\, ROA_{it} + \varepsilon_{it} \quad (3)$$

Where:
ACR_{it} = Accruals for firm i in year t.
TA_{it} = Total assets for firm i at end year t.
TA_{it-1} = Total assets for firm i at end year t-1.
ΔREV_{it} = Revenues in year t less revenues in year t-1 for firm i.
ΔAR_{it} = Changes in account receivable.
ΔPPE_{it} = Gross property, plant, and equipment; property for firm i at end year t.
ROA_{it} = Return on assets.
ε_{it} = Error term for firm in year t.
ROA = Returns on assets = $\frac{Net\ Income}{Average\ Total\ Assets}$ - in book value.

Table 1: Summary of measurements of earnings quality proxies, audit committee attributes and corporate board activity

S/N	Variable	Measurement	Previous literature
1	Discretionary accruals (DAC)	$\frac{ACR_{it}}{TA_{it-1}} = \alpha_0 + \alpha_1 [\frac{1}{TA_{it-1}}] + \alpha_2 \left[\frac{\Delta REV_{it} - \Delta AR_{it}}{TA_{it-1}}\right] + \alpha_3 \left[\frac{PPE_{it}}{TA_{it-1}}\right] + \alpha_4 ROA_{it} + \ell_{it}$ DAC = residual of the equation i.e ℓ_{it}	Dechow et al., (1995) Modified Jones Model
2	Audit committee meetings (ACM)	Number of meetings held in a year	Abdul Wahab *et al.* (2014).
3	Financial literacy (ACF)	Members that can read and interpret financial statement	Sawani (2021)
4	Financial experience (ACX)	Members that are professional accounting or auditing bodies' members and have unmitigated knowledge of auditing and can interpret provisions of GAAP (Generally Accepted Accounting Principle)	Brazel (2018), Hasnan *et al.* (2022)
5	Size (ACS)	Number of people in the Audit committee	Dlamini *et al.* (2017)
6	Independence (ACI)	Numbers of independent directors in relation to total number of members	Dlamini *et al.* (2017)
7	Board activity (BDM)	Number of meetings held in a year	Aljaaid et al., (2021), Sukeecheep & Farooque (2013), Olaoye & Adewumi (2020)
8	Board size (BDS)	Number of directors	Agyeman (2020), Cho and Chung (2022)
9	Composite value of audit committee attributes (ACA)	Pooled audit committee attributes (Using principal component analysis)	Adejumo et al. (2025)

Source: Authors' compilation (2025).

4. Results and discussion

4.1 Descriptive statistics analysis

Table 2: Descriptive statistics

Descrip. Statistics	ACS	ACM	ACI	ACF	ACX	DAC	ACA	LEV	BDS	BDM
Mean	5.569	3.404	2.733	1.589	0.898	6.050	-3.02	1.359	9.996	4.267
Std Dev	1.155	0.950	0.575	1.363	0.950	0.590	1.195	3.459	3.104	1.609
Min	2	1	1	0	0	-1.892	-3.36	0.004	3.000	1
Max	8	6	4	5	3	6.029	2.677	27.59	18	9

Source: Authors' Compilation (2025).

In Table 2, the mean value of audit committee size is approximately 6, which implies that the sample consumer goods companies companies have an average of 6 audit committee members with a minimum of 2 and maximum of 8 members. Also, the mean of audit committee meetings is 3 meetings, there is minimum of 1 (one) meeting and maximum of 6 meetings. Moreso, the mean of audit committee independence is approximately 3, this implies that average of 3 members of the audit committee members are independent directors, there is at least one independent director and maximum of 4 in the consumer goods companies. Audit committee members that are financially literate are 2 (mean of 1.589) with minimum of zero and maximum of 5, while those with auditing and accounting expertise is at least 1 (one), with minimum of zero and maximum of 3. The mean of discretional accruals is 6.05. The average debt to equity ratio is 1.359. The board size has a mean of 10 members with a minimum of 3 and maximum of 18. Finally, board meetings have a mean of 4 with a minimum of 1 and maximum of 9 meetings.

4.2 Correlation matrix

The relationships between the independent variables are shown in Table 3.

Table 3: Result of Correlation Analysis

	ACI	ACF	ACM	ACS	ACX	BDS	BDM	LEV	ACA
ACI	1								
ACF	0.4826	1							
ACM	0.472	0.4147	1						
ACS	0.8585	0.3821	0.4286	1					
ACX	0.3971	0.8491	0.3553	0.2791	1				
BDS	0.4365	0.2314	0.4317	0.4335	0.0306	1			
BDM	0.4348	0.5259	0.493	0.327	0.5585	0.2083	1		
LEV	-0.293	-0.2708	-0.2414	-0.1369	-0.2192	-0.1496	-0.2345	1	
ACA	0.9426	0.4734	0.6459	0.9394	0.3637	0.5018	0.4495	-0.2467	1

Source: Authors' Compilation (2024).

The results of the correlation matrix in Table 3 showed that there is moderate correlation among the independent variables. There is also no multicollinearity among the independent variables except in the relationship ACI and ACS, ACI and ACA, ACX and ACF, and ACS and ACA. However, this is not to the extent that it will affect our results.

4.3 Effects of audit committee attributes and corporate board activity on discretionary accruals of the sampled quoted consumer goods companies in Nigeria

The result for the effects of audit committee attributes and corporate board activity on discretionary accruals is presented in Table 4. Both Fixed and Random Effects models were estimated and Hausman test was employed to select the appropriate model. The result of the Hausman test statistics = 11.40; Prob = 0.18 revealed that the Random effect model is more appropriate.

The R-squared values indicate that the proportion of variance in the dependent variable explained by the fixed effect is 5.8%, the proportion of variance in the dependent variable explained by the random effects 28.5% while the overall R-squared accounts for fixed effects is 14.3%, that of random effects 38.4%. The Wald test reveals an overall significance of the variables in the model (statistics = 911.71; P-value < 0.001).

Audit Committee Independence has a statistically insignificant negative effect on discretionary accruals. Also, there is a significant negative effect of Audit Committee Financial Literacy on discretionary accruals. Moreso, audit committee meetings have a positive and statistically significant effect on discretionary accruals. This implies that more audit committee meetings will result in an increase in discretionary accruals and invariably lead to lower earning quality. The coefficient of audit committee size is positive, indicating a positive effect of audit committee size on discretionary accruals though statistically insignificant.

The coefficient for the Audit Committee Financial Expertise is negative and statistically significant, whereas its increase by a unit leads to a decrease in Discretionary Accruals by 0.003. The coefficient for Board of Directors' Size is negative and statistically significant, where an increase in Board of Directors' Size leads to a decrease in Discretionary Accruals by 0.006. The coefficient for Board of Directors' Meetings is positive and statistically significant, where an increase in Board of Directors' Meeting leads to an increase in Discretionary Accruals by 0.006. The coefficient for Leverage is -0.008 suggesting that as Leverage increases by 1-unit, Discretionary Accruals reduces by 0.008. Thus, this result is statistically significant at 1%.

Table 4: Regression result for the effects of audit committee attributes and corporate board activity on discretionary accruals

DAC	Fixed effect	Random effect	Random effect (robust)
ACI	-0.243	-0.310	-0.097
	(0.157)	(0.142)	(0.102)
	[-1.550]	[-2.190]	[-0.950]
ACF	0.012	-0.029	-0.011
	(0.067)	(0.056)	(0.007)***
	[0.180]	[-0.510]	[-1.650]
ACM	0.026	0.008	0.008
	(0.053)	(0.050)	(0.007)***
	[0.490]	[0.170]	[1.180]
ACS	0.181	0.177	0.065
	(0.070)	(0.065)	(0.051)*
	[2.600]	[2.710]	[1.270]
ACX	-0.080	-0.002	-0.003
	(0.100)	(0.082)	(0.008)***
	[-0.800]	[-0.020]	[-0.340]
BDS	-0.005	-0.019	-0.006
	(0.027)	(0.015)	(0.004)***
	[-0.200]	[-1.270]	[-1.640]
BDM	0.011	0.020	0.006
	(0.037)	(0.030)	(0.009)***
	[0.290]	[0.660]	[0.710]
LEV	-0.064	0.002	-0.008
	(0.025)	(0.012)	(0.003)***
	[-2580]	[0.210]	[3.120]
CONSTANT	-0.285	-0.017	-0.060
	(0.415)	(0.216)	(0.026)

	[-0.690]	[-0.080]	[-2.280]
Sigma_u	0.310	0.000	0.000
Sigma_e	0.586	0.586	0.153
Rho	0.219	0.000	0.000
F Test (Prob>F)	1.78*		
Wald Chi^2		11.10	911.71***
R-Squared:			
Within	0.058	0.024	0.285
Between	0.438	0.455	0.578
Overall	0.001	0.143	0.384
corr(u_i, Xb)	-0.768	0 (assumed)	0 (assumed)
Number of Observation	255	255	255
Number of Group	17	17	17
Hausman Test: Chi^2		11.400	
(Prob>Chi^2)		[0.180]	
Breusch and Pagan LM		0.000	
test: Chibar2(01)		[1.000]	
(Prob>Chibar^2(01)			

Source: Authors' Computation (2024).

*Figures in parenthesis ( ) represent the standard error, [ ] represent t- statistics; Level of significance * (> 5 ≤ 10%), ** (>1 ≤ 5%), *** (>0 ≤ 1%).*

The estimated variance of the random effect (u) is 0, suggesting that there is no variation across groups. Also, the estimated variance of the error term (e) is 0.153. The estimated intraclass correlation coefficient (ICC) is 0, indicating no correlation between the random effect and the predictors. Further, Breusch and Pagan Lagrangian multiplier test for random effects (statistic (chibar2) = 0; p-value = 1.0000), suggests that the null hypothesis (Var(u) = 0) cannot be rejected, indicating the absence of significant random effects.

4.4 Results of the pooled audit committee attributes and corporate board activity on discretionary accruals

The result for the effects of audit committee attributes after these attributes have been pooled into one variable (ACA) using principal component analysis (PCA) and corporate board activity on discretionary accrual was presented in Table 5. Both Fixed and Random Effects models were estimated and Hausman test was employed to select the appropriate model. The result of the Hausman test statistics = 11.40; Prob = 0.026 revealed that the Fixed effect model is more appropriate.

The R-squared values indicate that 2.9% of the variation in Discretionary Accruals is explained by the fixed effects model within groups, while 41.5% is explained by the fixed effects model between groups. The overall R-squared is 0.24%, considering both within and between effects. The F-test F ((4,16) = 57.05) indicates that the overall regression is statistically significant. The correlation between the estimated random effects and the predicted values is -0.850, suggesting a strong negative correlation.

The pooled Audit Committee Attribute (ACA) has a coefficient of 0.083 but it is not statistically significant. Thus, it is observed that as pooled Audit Committee Attribute increases by 1-unit, discretionary accruals increase by 0.083. Leverage is negatively and statistically significant in explaining Discretionary Accruals. Results reveal that as Leverage increases by 1-unit, discretionary accruals reduce

by 0.059 at 1% level of significance. The coefficient of Board of Directors' Size is negatively related to discretionary accruals. Result presents that when Board of Directors' Size increases by 1-unit, discretionary Accruals reduces by 0.007, and statistically significant. The coefficient of Board of Directors' Meetings is negatively related to discretionary accruals. Result presents that when Board of Directors' Meetings increases by 1-unit, discretionary accruals are reduced by 0.012, which is statistically significant at 5% level of significance.

Table 5: Regression result for the effects of pooled audit committee attributes and corporate board activity on discretionary accruals

DAC	Fixed effect	Random effect	Fixed effect (robust)
ACA	0.083	0.033	0.083
	(0.070)	(0.047)	(0.086)
	[1.190]	[0.710]	[0.960]
LEV	-0.059	0.012	-0.059
	(0.025)	(0.011)	(0.011)**
	[-0.260]	[-1.340]	[-5.520]
BDS	-0.007	-0.019	-0.007
	(0.027)	(0.014)	(0.033)**
	[-0.260]	[-1.340]	[-0.210]
BDM	-0.012	-0.002	-0.012
	(0.032)	(0.026)	(0.021)**
	[-0.360]	[-0.090]	[-0.540]
CONSTANT	0.199	0.180	0.199
	(0.276)	(0.186)	(0.360)
	[0.720]	[0.970]	[0.550]
Sigma_u	0.317	0.000	0.317
Sigma_e	0.590	0.590	0.590
Rho	0.224	0.000	0.224
F Test (Prob>F)	1.740		57.05***
Wald Chi^2		3.160	
R-Squared:			
Within	0.029	0.001	0.029
Between	0.415	0.455	0.415
Overall	0.240	0.013	0.004
corr(u_i, Xb)	-0.850	0 (assumed)	-0.850
Number of Observation	255	255	255
Number of Group	17	17	17
Hausman Test: Chi^2		11.04**	
[Prob>Chi^2]		[0.026]	
Breusch-Pagan LM test of independence: $Chi^2(136)$		189.781***	
[Prob]		[0.002]	
Modified Wald test for groupwise heteroskedasticity: $Chi^2(17)$		150000***	
[Prob.chi^2]		[0.000]	

Pesaran's test of cross sectional independence [Prov]	-1.480* [0.139]

Source: Authors' Computation (2025).

*Figures in parenthesis ( ) represent the standard error, [ ] represent t- statistics; Level of significance * (10%), ** (5%), *** (1%)*

The estimated variance of the fixed effect (u) is 0.317, suggesting that there is no variation across groups. Also, the estimated variance of the error term (e) is 0.590. The estimated intraclass correlation coefficient (rho) is 0.224, indicating that approximately 22.4% of the total variation in the dependent variable can be attributed to the individual-level fixed effects.

The test of the independence of the residuals across groups using a Breusch-Pagan test (statistic (chi2) = 189.78; p-value = 0.002), indicating strong evidence against the null hypothesis of independence. The test examines groupwise heteroskedasticity in the fixed-effects regression model. The test statistic (chi2) is extremely large (150000), with a p-value of 0.0000, suggesting strong evidence against the null hypothesis of homoskedasticity. The cross-sectional dependence using Pesaran's test. The test statistic is -1.480, with a p-value of 0.139, suggesting weak evidence against the null hypothesis of cross-sectional independence. The average absolute value of the off-diagonal elements in the correlation matrix is 0.268, indicating some degree of correlation between the residuals across groups.

4.5 Discussion of findings

The examination of the relationship between the firms' discretionary accruals and financial literacy confirmed a negative significant effect which indicates that the members' financial knowledge played a greater role in reducing the opportunistic management earnings reporting practices. However, this is not in line with the findings of Badalato *et al.* (2013) where assertions were made that the audit committee members literacy has no role to play in reducing the earnings management practices.

The finding of this study on the importance of presence of a financial expert in the audit committee showed that the expertise of a member of the committee plays significant roles in reducing the firms' discretionary accruals and is in accord with the past studies of Setiany *et al.* (2017), Gulec (2017), Chowdury *et al*. (2018), Rashid (2018), Alzoubi and Al- Othman (2019), Benamraoui *et al.* (2019). However, the finding is contrary to the results of Habbash *et al.* (2013), Lyimo (2014), Yeh and Chou (2014), Abbadi *et al.* (2016), Kibiya *et al.* (2016), Moses *et al.* (2016), Salleh *et al.* (2017).

Another significant attribute of audit committee that was examined is the committee independence and the conclusion that it has no significant role on the disclosed discretionary accruals in conformity with the past study of Jamil (2018) but contradicted the findings in Fodio et al; (2013), Enomoto *et al.* (2015) and Smit (2015) whose studies affirmed that the members' independence is positively related with the disclosed discretionary accruals. The findings also contradicted the assertions contained in the research of Sharma and Kuang (2013) whose study affirmed that the members' independence reduces the level of earnings management practices.

Meanwhile, the size of the audit committee of the studied firms did not played any major roles on the discretionary accruals returned from the firms' activities in agreement with the past study of Hamdan *et al.* (2013) and in opposition to the findings of Ettredge *et al*. (2013), Xu and Zhon (2015), Rahman and

Mansor (2018) with the findings which established a negative significant impact of audit committee size on the earnings management practices.

The meetings of the audit committee of sampled consumer goods companies do not have any significant effect on the level of its discretionary accruals in contrary to the earlier findings of having positive relationship with the firms' level of accruals as cited in Chen & Komal, (2018), Awwad (2020) and Mardessi (2021). The present study did not also agree with the findings of Mbat and Eyo (2013) and Umobong and Ibanichuka (2017) whose studies established a negative relationship between the audit committee meetings and the earnings management practices. The board of directors' size of the sampled firms shows a significant negative effect on the discretionary accruals as affirmed by past studies of Ferris and Liao (2019) and Purnama and Nurdiniah (2019). These findings the results of the studies of Swastika (2013), Turegun (2018), and Cho and Chung (2022) that established a positive association between board size and increases in the accruals of the examined firms.

It was also found that the firms leverage reduced the discretionary accruals of the sampled consumer goods companies and this finding negates the assertions of Drechslin *et al.* (2017). In the above cited authors, it was affirmed that the firm's leverage has positive relationship with discretionary accruals. This present study also affirmed the importance of corporate board meetings in reducing the earnings accruals in agreement with the earlier studies of Olaoye and Adewumi (2020).

Finally, there is a significant positive relationship of audit committee attributes (when all the attributes are pooled using principal component analysis) with discretionary accruals. This implies that combined audit committee attributes do not discourage the management of corporate organizations from earnings management. This is evident in the prevalence of earnings restatement in the consumer goods industry. However, board size and board meetings have significant positive effect on the discretionary approvals. Therefore, earning manipulation by the corporate managers is better curbed by the oversight functions of the board of directors rather than by the audit committee attributes.

5. Conclusion

The study examines the effect of audit committee attributes and board activity on earnings quality. Also, the combined effect of audit committee attributes and board activity on earnings quality was investigated using panel data analysis. The panel data was analyzed using random effect for examining the individual effect of audit committee attributes and board activity on earning quality while fixed effect analysis was used to analyse the combined effect of audit committee attributes and board activity on earning quality. The results show that audit committee independent effect on earning quality is negative and insignificant, while audit committee financial literacy and accounting expertise have a significant negative effect on earnings quality. Also, audit committee meeting has a positive and significant effect on earnings quality, while audit committee size has a positive but insignificant effect on earnings quality. Moreso, board size and leverage reveal a significant negative effect on earnings quality while board meeting has a positive and significant effect on earnings quality.

Finally, the combined effect of the audit committee attributes, pooled through principal component analysis, and board activity on earnings quality was insignificant and positive. However, board size, meeting, and leverage show significant negative effect on earnings quality. It is recommended that members of audit committee should be required to be financial literate and possess accounting knowledge and skill to read, analyze, and interpret financial statements, while appropriate board sizes

depending on the size of business should be appointed to effectively supervise and manage opportunistic behaviours of management.

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