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Audit committee, International Financial Reporting Standards adoption and discretionary accruals in Nigerian Listed Firms

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Abstract

This study investigates the impact of audit committee on discretionary accrual in Nigerian listed firms. Specifically, the study examines the effect of audit committee shareholder financial expertise, audit committee shareholder chairman, audit committee block holders, and audit fees on discretionary accrual. The study uses a sample of 101 Nigerian listed firms over the period of 2009 to 2015. The study employs the dynamic panel using Generalised Method of Moment for data analysis. Our findings show that audit committee shareholder financial expertise, audit committee shareholder chair, audit committee block shareholder have a significant negative relationship with discretionary accrual. The study also documents that audit fees have a significant and negative impact on discretionary accruals. The study further reveals that there is a significant difference in the association between audit committee and discretionary accrual before and after the IFRS adoption for the periods 2009-2011 and 2013-2015. Taken together, these findings offer implications for policymakers, regulators, and firms. Such as boosting the capital market, and enhancing stakeholders' confidence as well as potential investor's confidence. The study also suggests that future research should examine financial institutions.

Keywords: Audit committee, Discretionary accruals, IFRS
JEL Classification: M42

1.0 Introduction

The rapid growths that emit a shadow on the global economy had a significant influence in bringing about clear changes on the level of the business setting in general, and the accounting profession in particular (Shbeilat & Harasees, 2018). The corporate failures of large firms all over the world have affected shareholder confidence in the quality of reported earnings (Albersmann & Hohenfels, 2017). It is argued that one of the main reasons for these business collapses was poor corporate governance (CG) (Crisóstomo et al., 2020) which led to poor performance of audit committee (AC) and subsequently, led to grave earnings management (EM) (Chen et al., 2021). However, the harmonisation of global accounting standards through the adoption of International Financial Reporting Standards (IFRS) has been a stimulus for good CG (Bryce et al., 2015a). IFRS adoption is thought to improve the quality of earnings

through increased value relevance (Chapple, 2018), decreased discretionary accruals (DAC) (Lai et al., 2018), and advanced forecast analysis (Samaha & Khlif, 2017a).

However, several studies disagree with the belief that earnings quality will be higher due to the dissimilarities among global financial reporting settings (Olugbenga & Atanda, 2014). This argument upheld that local Generally Accepted Accounting Principles (GAAP) best befits the local business environments. It is, therefore, apparent when different cultures are considered in developing accounting standards. Hence, IFRS adoption across the globe may not be appropriate (Bryan et al., 2018; Bryce et al., 2015). Early debate against the adoption of IFRS, by (Barth et al., 2008; Jeanjean & Stolowy, 2008) argue that IFRS are principle-based which offers flexibility, which in some instances is unnecessary to firms that may involve in earnings smoothing, leading to lower earnings quality.

The issue of new standards and regulations with the aim to improving governance remains an area of great interest not only to academic researchers, but policymakers, regulators, and accounting practitioners alike. This is due to the contradictory existing empirical evidence concerning numerous challenges linked with regulatory reforms that seem to hinder its usefulness (Samaha & Khlif, 2017). Additionally, the quest to provide a balance between the cost of compliance with new regulations and the benefits to be derived from is a basis of concern to regulators. Thus, given the international importance of financial reporting quality (FRQ) and the state of the Nigerian business environment prior to the regulatory reforms, an academic investigation of this nature is meaningful.

The adoption of IFRS in Nigeria is consequent upon the inadequacy of the Statement of Accounting Standards (SAS) issued by the defunct Nigerian Accounting Standards Board (NASB) which was unable to provide full disclosure require in financial reporting. The few available standards were not complied with by most firms because of weak regulatory enforcement which led to dubious practices, including initial public offer (IPO) hoarding (ROSC, 2011). Further, the lack of adequate standards has created flexibility for managers to indulge in more EM, thus triggering colossal financial losses, for example, a huge debt totaling over N300 billion ($1.5 billion) was reported by Arik Airline, which led to its takeover by the AMCON (The Economic Confidential, 2017).

The use of the old CG code by Nigerian listed companies has led to incompetence and ineffective performance of the AC, which further led managers to be involved in EM practices, which adversely affected the value of stocks in the capital market. This has also led to the collapse of several companies across different sectors (Okolie & Izedonmi, 2014).

Additionally, the gravities of professional misconduct among accountants and auditors occasioned by poor standards in corporate Nigeria has been glaring such that some accountants and auditors are determined to take advantage of the ambiguities which characterise the accounting standards to continue to “cut corners” (Bakre, 2007). Consequently, IFRS was adopted in 2012

To strengthen the AC to align with the IFRS adoption, the Companies and Allied Matters Act, 2020 (CAMA) as amended has specified the composition of the committee to have two directors and three representatives of shareholders, with all members having financial or accounting expertise (CAMA, 2020). The functions of the AC are to adequately monitor and advise management on the timely preparation and release of the financial report to shareholders, regulators, and other stakeholders. Further, the AC's responsibility is to review important matters and judgments made about the firm's financial statement (Bala et al., 2019). Similarly, the committee is responsible for protecting investors' interests by securing high financial reporting quality disclosure, accounting policy monitoring, maintaining the external auditors' independence, and regulating compliance.

The main objective of the study is, therefore, to assess the effects of AC, IFRS adoption, and DAC in Nigerian Listed Firms. The investigation will also cover the 2009-2011 pre-IFRS adoption period for comparison with the post-IFRS adoption to cover the 2012-2015 periods.

2.0 Literature Review

2.1 Audit Committee

AC is defined by scholars as a committee that comprises mainly independent non-executive directors (IND) with a mandate to act based on shared norms of loyalty to a third party and in an appropriate manner (Larasati et al., 2019). One of the major characteristics of the AC is its composition which should be substantial enough to provide quality control and managerial monitoring independence (Ghafran & Yasmin, 2018). Therefore, shareholders as new members of AC are expected to play significant roles.

2.1.1 Audit committee shareholder chair and discretionary accrual

Shareholders in the AC are expected to institute good corporate practice and a higher level of dedication to enhance AC performance (Al-ahdal & Hashim, 2022). Although no prior study has directly examined the association between EM and shareholder participation in the AC that has come to our knowledge. However, indirect evidence indicates that AC with participating shareholders can reduce the extent of EM and protect the auditor's independence (Meuwissen & Quick, 2019). Thus, shareholders as the new variable in AC can certainly open a debate in accounting research. Shareholders are, therefore, expected to play dual roles of being owners and effectively demonstrate the ability to monitor the financial reporting process as well as AC members that can limit the extent of EM (Crisóstomo et al., 2020).

Shareholders are expected to assume the leadership position of the committee as the chairman is more responsible for overseeing the committee's function (Free et al., 2021), and liable for the breakdown of the reporting process (Ghafran & Yasmin, 2018). Additionally, (Ahmad, 2016) argues that the chair of the AC is also a committee member who determines the ability of the committee. Similarly, the primary contact point between the committee and the stakeholders is the chairman (Tanyi & Smith, 2015). Prior literature suggests that the chairman of the AC represents one of the firm's top positions and the hierarchy acts as a dependable

source of power (Sharma, Naiker & Lee, 2009). Consequently, (Haq, 2015) considers the AC chairman as a person with sufficient power compared to members without chairing a portfolio. Thus, the inclusion of shareholders in the AC can uniquely play essential roles as chair of the committee by exploring different approaches to enhancing the effective performance of the AC (Bala et al., 2021).

2.1.2 Audit committee shareholder financial expertise and discretionary accrual

One of the most essential features of AC is financial expertise (Bilal et al., 2018; Ghafran & Yasmin, 2018). Prior research argues that AC with financial experts constrains EM (Badolato et al., 2014. The primary duties of the AC are organizing and controlling meeting discussions establishing good relationships with management, and auditors, and developing interpersonal relationships among members (Aldoseri et al., 2021. This present study, therefore, expects that shareholders with financial expertise in the AC will limit the extent of EM. Financial knowledge (expertise) is described as a person with education and experience in accounting, auditing, or financial management (Bilal et al., 2018. Previous studies suggest that the fall of Enron due to high-profile corporate scandals was because of Enron's AC chair lacked relevant expertise (Breeden, 2003). Hence, a collection of knowledge skill, and structural power may bring forth the effectiveness of the AC.

2.1.3 Audit committee block shareholder and discretionary accrual

Shareholding in most emerging economies around the globe tilted towards identifiable interest groups such as managerial, individuals, and foreign owners (Dou et al., 2018), or institutions such as pension funds, banks, and insurance via cross-ownership (Mohammed et al., 2019). Prior studies have established an association between long-term institutional investors and EM (Elyasiani et al., 2017). They argue that institutional ownership reduces information asymmetry and effective tab management, which curves EM. Furthermore, institutional ownership strengthens corporate governance apparatus such as firms' AC for effective supervision of the financial reporting process, which consequently reduces agency problems. (Susanto & Pradipta, 2016) report that Indonesian firms with institutional investors suppress real EM. However, other studies reveal that institutional investors do not reduce EM (Sani et al., 2020). Instead, institutional ownership increases the magnitude of EM (Arowolo & Che-Ahmad, 2017). Hence, block shareholders in the AC have the potential to render adequate AC performance due to the volume of shares held (Isah, Che-Ahmad & Ishak, 2018). Therefore, block shareholders are in a better position to constrain managerial myopia by encouraging managers to invest in long-term and profitable portfolios (Harford et al., 2018).

2.2 IFRS adoption

IFRS's relationship with quality financial reporting has provided a new vista for accounting research across the globe (Mbir et al., 2020). Barth et al., (2008) found that companies who adopted IFRS have better quality reporting than those who have not. Several others have reported that IFRS has improved on financial reporting quality, (Eiler et al., 2022; Fuad et al., 2022; Setiawan et al., 2019). Similarly, firm-level evidence, Neel (2017) indicated that firms

with IFRS as reporting language enjoyed the benefits of economic quality reporting. Additionally, Amidu et al. (2016) analysed IFRS adoption in financial institutions the inferences suggest that the quality of financial reporting has greatly improved. Further, Agyei-Mensah (2013) reported that pre-and-post IFRS revealed a disclosure mean of financial information of 76.80% before adoption and 87.09% after adoption, showing a rise in financial reporting quality.

However, strands of accounting literature believe that IFRS adoption hinders financial reporting quality. For example, in an effort to examine the effects of IFRS adoption, (Ahmed et al., 2013) argued that 20 countries investigated, suggested a decrease in financial reporting quality after the adoption of the IFRS. Consequently, their study raised doubts about findings from prior research that suggest a positive link between financial reporting quality and IFRS adoption, as reporting quality improvement may be determined by various factors other than simply adopting IFRS. In their findings (Jeanjean & Stolowy, 2008) report that the depth of EM did not reduce after IFRS adoption. Hence, concludes that IFRS standards are not adequate enough to lower the extent of EM, thus, other factors such as compliance may be central in enhancing the quality of the financial reports. In another development, Kao (2014) discovered that IFRS adoption does not influence realistic presentation, which is a crucial feature of a quality financial report. Consequently, the mixed empirical evidence offered by several literature indicates that IFRS in itself does not increase financial reporting quality unless certain factors are put in place to ensure compliance with these standards such as enforcement (Amidu et al., 2016; Ahmed et al., 2013).

2.3 Discretionary Accruals

Research on earnings management (EM) requires the separation of DAC from total accruals. An inappropriate measure of DAC may lead to misleading outcomes (Suk Yoon et al., 2020). If non-DAC is treated as discretionary or vice versa, it will be hard to differentiate the degree of EM properly (Lai et al., 2018). The Jones models have been dominant in EM and other related studies. However, some prior research questions the validity of the Jones models (Hribar & Collins, 2002; Kothari et al., 2016). Further, Dechow et al (2012) suggest that the Jones models likely suffer from type I errors, categorizing accruals as abnormal when they are not. They note the Jones model has low explanatory power, but they do not explore why the Jones model suffers from low explanatory power. DACs are often regarded as a key indicator of accrual-based EM (Banker et al., 2020). Consequently, scholars estimate an accrual expectation model as a benchmark of normal accruals and then calculate DAC as the regression residual.

Several other studies avoid DAC models by using a scatter plot or other types of graphical approach (Burgstahler & Dichev, 1997). While some, examine only current DAC using cash flows from operations as primary determinants of current accruals – and, therefore, do not include noncurrent accrual components (Dechow et al., 2012). Another important stream of EM study is real EM (Roychowdhury & Watts, 2007). Since these other streams of EM studies differ basically from the type of research examining the DAC components of total accruals, thus, the study will not discuss these studies any further

2.4 Theoretical Framework

Previous studies have used various theories to explain the association between the explained and the explanatory variables used in the financial reporting model. In spite of years of research on financial reports, agency theory still remains relevant, thus, this present study is underpinned by agency theory as the focus of the research is on AC composition. Agency theory emphasises on CG mechanism and human-factor reliant need to achieve group corporate goals. The belief of agency theory, however, is that all those involved in managing firms act opportunistically (Jensen & Meckling, 1976). Further, the advocates of agency theory suggest that human-factor dependent and CG mechanisms be integrated to lower the opportunistic behaviour of managers against shareholders' interest.

The agency theory was first mooted by (Alchian, A., & Demsetz, 1972), which they derived from the economic theory and was further developed by (Jensen & Meckling, 1976). The focus of this theory is on the separation of ownership and control in corporate organisations (Fuller, 2018). The agency theory is a very useful governance mechanism for the reduction of conflicts between agents and principals (Jensen, 1986). It is also the bedrock of CG discourse as it explains the principal and agent relationship in companies (Voorn et al., 2019).

The external governance mechanisms include statutory regulations in the form of codes and standards, which may be national or international. The CG mechanisms work together, complement, or supplement each other toward effective disclosure in compliance with IFRS disclosure requirements. Due to the power of agency theory and of its potential to resolve the conflict of interests between players, researchers have considered other theories as acting only as complements to and not replacing the agency theory (Wang, 2021)

3.0 Methodology

The study utilise data from a sample of non-financial listed firms in Nigeria from 2009–2015. Shareholders information, institutional shareholdings, and financial data were hand collected from annual report and accounts of all firms. Firms included in the sample must adhere to the following criteria. First, firms must be listed on the Nigerian Exchange Group as at 31st December 2011 with sufficient data within the study period. Second, firms involved in merger or acquisition not considered. Third, financial institutions were also not included due to their unique and high regulations (Elyasiani, Wen & Zhang, 2017). This process yields a final sample of 707 firm-year observations, representing 101 firms over seven years' periods.

Dynamic panel data using system GMM is used for data analysis, the system GMM decreases finite sample bias and enhance the precision of estimates if compared with difference GMM estimators (Roodman, 2009). The validity of the system GMM is confirmed in small samples, i.e., when the number of individuals is small, it shows the best features regarding the lowest small sample bias and highest precision (Soto, 2009). Additionally, system GMM augments the first-differenced equations in which lagged levels of dependent variable are instruments, with additional set of level equations with lagged first-differences of the same variable as instruments (Blundell & Bond, 1998). Additionally, GMM estimations also comprise the

country fixed effects to control for the effects of heterogonous unobserved factors across the firms and the time (year) fixed effects (Yj) to capture the time trend effects over the years examined. Hence, the study adopts the Modified-Jones accrual model by (Dechow et al., 1995). as shown below;

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

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

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

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

Where: **TAC**: is total accruals, EBIT: earnings before interest and tax, CFO: cash flow from operation while i for industry and t for the year. DAC: Discretionary accruals. ACC: Accruals. NDA: Non-discretionary accruals. Consequently, the study examines the relationship between all the independent variables and earnings quality proxy by DAC. Following (Dechow et al., 2012), this study considers Board size, Growth, Profit, return on assets and firm size, as control variables. Thus, the following model is proposed.

$$DAC_{it} = \beta_0 + \beta_1 ACSE_{it} + \beta_2 ACCr_{it} + \beta_3 ACBS_{it} + \beta_4 LADFE_{it} + \beta_{5L} FRL_{it} + \beta_6 FSIZE_{it} + \beta_7 ROA_{it} + \beta_8 BSIZE + \beta_9 IFRS_{it} + YREFFT + INDEFFT + \varepsilon_{it} \quad (5)$$

In testing the difference between the pre-and post-IFRS adoption periods, the the R^2 values for the two periods were compared using the Cramer's z statistics (Cramer, 1987) to ascertain the significant differences between the two periods (pre-and post-IFRS adoption) of the regressions. Similarly, to obtain valid conclusion on the value relevance of IFRS, the R^2 after the adoption period should be greater than the pre-adoption period. Hence, the Cramer's z statistics is calculated using the formula below;

$$Z = \frac{\hat{R}^2{}_1 - \hat{R}^2{}_2}{\sqrt{var(\hat{R}^2)_1 \; var(\hat{R}^2)_2}} \quad (6)$$

$$var(\hat{R}^2) \sim \frac{4}{N}\hat{R}^2\left(1 - \hat{R}^2\right)^2 - \left[1 - \frac{2(q+1)+3}{N}\right] \quad (7)$$

Where: N represent the size of the total sample used and q is the number of predictors (variables). $R^2 1$ represents the type of R^2 used for regression one and R^2 2 represents the type of R^2 used for regression two. Var $(R^2)1$ and Var $(R^2)2$ represents the variation of first and second regressions respectively. Consequently, the following regression equation is to be ran to determine the relationship between the two periods;

$DAC_{it} = \beta_0 + \beta_1 ACSE_{it} + \beta_2 ACCr_{it} + \beta_3 ACBS_{it} + \beta_4 LADFE_{it} + \beta_{5L} FRL_{it} + \beta_6 FSIZE_{it} + \beta_7 ROA_{it} + \beta_8 BSIZE + \beta_9 IFRS_{it} + YREFFT + INDEFFT + \varepsilon_{it} + D1 + \varepsilon_{it}$ (8)

D1 represents a dummy variable which takes a value of 0 for pre-IFRS adoption period and 1 for post-IFRS adoption period.

3.1.1 Variables Measurement

Table 1: Variables, Measurement, and Sources

Variables	Measurement Descriptions	Source
DAC	Total Accruals minus Non-Discretionary Accruals	Dechow et al. (1995)
ACSFE	Measured by 1 if shareholder is a financial expert 0 otherwise	Abernathy et al. (2014)
ACCr	Measured by 1 if chairman is a shareholder 0 otherwise	Kibiya et al. (2016)
ACBLS	Measured by 1 if shareholder is a block shareholder, 0 otherwise	Abernathy et al. (2014)
LADFE	Measured by natural log of audit fees	Mohamed & Habib (2013)
LFRL	Log of number of days from year to the publication date	Aubert (2009)
LFSIZ	Measured by the natural logarithm of total assets	Carpenter (2002)
PROF	Net profit divided by year-end owner's equity	Mollik & Bepari (2012)
IFRS	Measured by dummy 1 if IFRS is used, 0 otherwise	Yaacob & Che Ahmad (2012)
GRWTH	Measured by market equity value to book value	Mayers (1977); Gavers (1995)
ROA	Measured by net income divided by total assets	Ashbrough (2003)
BSIZE	Total number of board members	Gaver (1995)

ACSE = Audit committee shareholders' financial expertise, ACCr =Audit committee shareholder chair, ACBS = Audit committee block shareholders, LADFE = Log of Audit Fees, DA = Discretionary accruals, LFSIZE = Log of Firm size, PROF = Profitability, GWTH = Firm growth, ROA=Return on assets, BSIZE=Board size.

4.0 Results and discussions

4.1.1 Descriptive statistics

Table 2 shows the result of the descriptive statistics of the continuous variables. The significance of the descriptive statistics is to determine the data status and how it behaves in terms of its deviation from the mean and variation which could subsequently lead to comparison between what the standard required is and what is obtainable on average (Kaur et al., 2018). It is explained based on the minimum, maximum, standard deviation and mean values.

Table 2: Descriptive statistics for continuous variables

Variable	Min	Max	Mean	sd	Skewness	Kurtosis
DAC	0.01	0.66	0.30	0.20	0.10	1.60
FRL	7	365	99	57	2	8
ADFE	350	145,000	10950	16752	3.86	24.10
BSIZE	5	20	9	3	1.07	5.48
GRWTH	0.01	0.21	0.07	0.03	1.68	9.00
ROA	-0.02	0.33	0.07	0.05	1.19	5.50
PROF	-0.08	0.72	0.11	0.11	2.03	8.22
FSIZ	2.54	7.45	4.86	0.816508	0.17	3.24

DAC=Discretionary accruals, FRL=Financial Reporting Lag, ADFE=Audit Fees, BSIZE=Board Size, GWRTH=Firm Growth, ROA=Return on Assets, PROF=Profitability, FSIZE=Firm Size

This paper estimated DAC using the Modified Jones Model Dechow et al., 1995) and reported based on absolute values following (Klein, 2002). The minimum value of DAC is 0.01 and the maximum is 0.66, while the mean value is 0.30 and the standard deviation is 0.20. This means that the magnitude to which managers are involved in opportunistic behaviour among firms listed on the NSE is alarming, and hence, a cause for concern.

The FRL, on the other hand, is measured as a distinct dataset by regarding the number of days taken between a firm's fiscal year-end to the date when the report is published (Gold et al., 2020; Reid et al., 2019). The minimum and maximum number of days is 7 days and 365 days, respectively. It means that on average, a Nigerian listed firm delays the announcement of the financial report to stakeholders for 99 days. This indicates a clear violation of the standards set by the SEC, where companies are required to publish their stewardship after the close of business at the year-end within 90 days as prescribed by Section 60 (2d) (iii) of the Investment and Securities Act (ISA), 2007. Consequently, the value of standard deviation is 57 days which is interpreted as 57 days deviation, hence, signifying variation from the mean.

Table 2 reveals the ADFE values range from a minimum of N3500,000 and a maximum of N145,000,000. The Table further reveals the sum of N10,950,000 as the average value of ADFE and N16,752,000 as the standard deviation. The result is consistent with (Abdulmalik & Che-Ahmad, 2016b) who reported an audit fee mean of N14, 600,000. Accordingly, the variation is not far from the mean which connotes normality The wide difference between the lowest and highest values of ADFE may be due to companies that hired a big4 audit firm charge extremely higher ADFE than those engaged non-big4 firm (AlQadasi, 2018). BSIZE, also measured as discrete data, indicates that the minimum number of board members is five and the maximum number is 20. It becomes apparent that on average, a board of a listed company in Nigeria has nine members. The Code requires that a firm must have at least five members on the board (SEC, 2011). Thus, listed firms in Nigeria meet the minimum requirement in respect of BSIZE. However, the standard deviation with the value of three accommodates variations from the mean.

The mean value of GWRTH of Nigerian listed firms is at the rate of 7%. The minimum and maximum growth rate are at 1% and 21%, respectively. Furthermore, the Table shows a 3% variation from the mean. While the minimum ROA is -2%, suggesting that some Nigerian listed firms can have negative return on assets, while others can have a maximum of 33% return on assets. Table 2 further shows that the mean value of listed firms in Nigeria is 0.07, meaning that Nigerian listed firms can have return on assets of approximately 7%. The standard deviation, as can be seen, indicates a 5% variation from the mean. The variation is relatively normal (Leys et al., 2013). The result on PROF indicates that some firms could declare loss while others show high profit margin as the minimum and maximum reveal -8% and 72% respectively. The mean is 11% and 11% as variation from the mean. FSIZE has a minimum value of N2.54 billion, while the maximum value is N7.45 billion. FSIZE indicates that on average, a Nigerian listed firm has assets worth N4.86 billion. The standard deviation indicates N816,508 million, and it also reveals normal variation as it is not too far from the mean.

On the normality assumption, skewness and kurtosis were used for all the study variables. Bono et al. (2019) and Sharma & Ojha (2020) argue that the use of skewness and kurtosis for testing the data could reveal whether the said data is normal or not. Consequently, the higher threshold of ±3 was utilized for skewness as recommended by Hair et al., (2014) while a threshold of ±10 was used for kurtosis as argued by (Kline, 2015), thus, the result indicates that data distribution is normal except for ADFE where the Kurtosis is much higher.

Table 3 presents the frequency statistics of the dummy variables.

Table 3: Frequency distribution of dummy variables

	Frequency		**Percentage**	
Variable	1	0	1	0
ACSE	610	97	86.28	13.72
ACCr	671	36	94.91	5.09
ACBS	219	488	30.98	69.02

ACSE=Audit Committee shareholder financial expertise, ACCr=Audit committee shareholder chairman, ACBS=Audit committee block shareholder

It can be observed from the Table that 86% (610 firms) have shareholders with financial expertise in the AC, while 14% (97 firms) are without financial expertise. Thus, majority of Nigerian listed companies have complied with the SEC requirement, which states that at least one member must have knowledge of accounting. Their involvement, therefore could bring about fruitful results in reducing cosmetic accounting consequently, 95% (671 firms) AC are chaired by a shareholder, while 5% (36 firms) are chaired by an IND in the AC. The Table also reveals the number of block shareholders, whereby 31% (219 firms) of the ACs of Nigerian firms include block shareholders, while 69% (488 firms) do not include block holders. Hence, block holders are expected to improve the reporting process and lower managers' excesses.

Table 4: Correlation matrix

	DAC	ACSE	ACCr	ACBS	IFRS	LFRL	LADFE	BSIZE	GRWTH	ROA	PROF	LFSIZ	VIF
DAC	1												
ACSE	-0.05	1											1.40
ACCr	-0.03	0.47***	1										1.32
ACBS	0.04	0.12***	0.02	1									1.05
IFRS	-0.20***	0.00	0.02	-0.02	1								1.70
LFRL	0.04	0.04	-0.06	0.05	-0.18***	1.00							1.17
LADFE	-0.11**	0.11**	0.03	-0.08**	0.56***	-0.24***	1						2.22
BSIZE	-0.02	0.18***	0.08**	-0.05	0.06	-0.17	0.32***	1					1.36
GRWTH	-0.03	0.03	-0.07	-0.03**	0.29***	-0.22	0.39***	-0.01	1				1.29
ROA	-0.01	-0.06	-0.04	-0.09	0.14***	-0.11**	0.16***	-0.03	0.19***	1			1.07
PROF	0.02	-0.06	-0.02	-0.03**	0.09***	-0.22**	0.19***	0.10***	0.12	0.00	1		1.09
LFSIZ	-0.01	0.15***	0.07	-0.11**	-0.08***	-0.15***	0.36***	0.45	0.02	-0.01***	0.17	1	1.57
Mean VIF													**1.39**

Note: ****p < 0.01; **p < 0.05; *p < 0.1*

Table 4 shows the correlation matrix for the study variables. It reveals that DA was inversely correlated with LADFE. This negative correlation suggests key evidence on the direction of their relationship in the estimation model at 5%. ACCr, ACBS, and LADFE, had a positive correlation with ACSE at 5% and 1% levels of significance. This also shows an insight on the nature of their relationship in the regression model. BSIZE correlates with ACCr at 5% level of significance. While LADFE, GRWTH, PROF, and LFSIZ had negative association with ACBS at 5% significance levels. Additionally, LADFE, ROA, PROF, and LFSIZ had a negative correlation with LFRL at 5% and 1% levels of significance respectively. The negative correlation is also a clue that indicate the direction of their association in the regression model. However, BSIZE, GRWTH, ROA, PROF, and LFSIZ had positive correlation with LADFE. Further, BSIZE correlates only with LFSIZ.

positively at 1% significance levels. ROA has a positive correlation GRWTH at 1% level of significance. While LFSIZ has a negative correlation with ROA at 1% level of significance. Overall, the results disclose that multicollinearity might not have any threat to the regression model as the highest correlation among the predictor variable was 47% between ACSE and ACCr. This could be regarded as normal because it is within the thresholds of 90% as (Hair et al., 2014) suggested. The mean value of variance inflation factor (VIF) test performed to justify the result of the correlation matrix is 1.39 suggesting that the VIF values of 1+ shows no evidence of multicollinearity among the independent variables.

The results of DAC using the estimation model 5 is presented in Table 5 below. It tests H_1, H_2, H_3 and H_4 to examine the relationship between the AC and DAC for the full sample of the study. The results of the lagged dependent variable (L1) indicates that the instruments employed in the regression model are valid and the moment condition is correctly specified at 5% level of significance. Moreover, the model fitness is also corroborated by the F statistics which is (F 12 100) = 280.182 with a probability of F> 0.000.

Table 5. Dynamic panel results for discretionary accruals

Variables	Coef.	Std. Err.	t-stat	*P*val.
DAC				
L1.	0.108	0.051	2.12**	0.036
ACSE	-0.144	0.036	-4.00***	0.000
ACCr	-0.200	0.060	-3.31***	0.001
ACBS	-0.064	0.022	-2.88***	0.005
IFRS	-0.060	0.012	-4.97***	0.000
LFRL	0.090	0.044	2.03**	0.045
LADFE	-0.054	0.019	-2.79***	0.006
BSIZE	-0.007	0.005	-1.23	0.222
GRWTH	1.214	0.234	5.19***	0.000
ROA	0.167	0.123	1.36	0.178
PROF	0.002	0.000	4.73***	0.000
LFSIZ	0.024	0.014	1.77*	0.079
_cons	0.122	0.160	0.76	0.448
F (12 100)	280.12***			

Prob> F		0.000
AR2		0.396
Hansen		0.445
No. of Group	101	
No. of Instruments	81	
Industry Effect	Yes	
Year Effect	Yes	

*Note: * p < .05, ** p < .01, and *** p<001*

In the same vein, the values of the Arellano Bond test statistics for the second order autocorrelation shows that the model has no second order autocorrelation with a value of 0.396, while Hansen J statistics has value of 0.445 indicating that the model instruments are correctly specified and has a good fit.

Table 5 shows that ACSE was negatively and significantly related to DAC. This is deduced from the model, which reveal regression coefficients and p-values of ($\beta > -0.144$, $p>0.001$). This means that AC with financial expertise have a high likelihood of reducing earnings smoothing in the form of artificial cosmetic of accounting numbers and managers' discretion on earnings. The finding is consistent with H1, which presumed that ACSE would have a significant and negative relationship with earnings smoothing in the pre-and post IFRS adoption. The result is consistent with resource dependence theory, which argue that ACSE seems to be critically resourceful in enhancing financial reporting process due to the several financial knowledge and reporting skills as well as abilities that they share amongst themselves (Bala et al., 2021; Ghafran & Yasmin, 2018). This result further affirms the findings of prior researches which document that AC shareholder with financial expertise could constrain the magnitude of DAC and improve the quality of financial reporting consequent upon the adoption IFRS (Aldoseri et al., 2021; Chapple, 2018; Dahlén, 2017).

The results in Table 5 indicates that ACCr is negatively and significantly relate with DAC with the estimation values of $\beta > -0.200$ and $p>0.005$. It means that an AC headed by a shareholder may likely offer a better level of determination in the process of financial reporting (Mohammed et al., 2018). Thus, an AC chaired by shareholders can reduce the extent of DAC in their respective firms. The result support hypothesis H2 that ACCr which proposed a negative and significant relationship between AC and DAC leading to quality financial statement devoid of cosmetic reporting. It further suggests that the higher the number of ACCr in the committee, the lower the extent of DAC due to IFRS compliance. Thus, effectively addresses the issue of financial reporting manipulations. This result is consistent with (Aldoseri et al., 2021; Bugeja & Loyeung, 2017), who argue that chair of an AC could bring a leadership that can make the committee to be resourceful and enhance its effectiveness. Additionally, the result is also consistent with the agency theory in terms of agency cost reduction.

Similarly, the result of hypothesis H3 in Table 5 indicates a significant and negative association between ACBS and DAC with a coefficient value of $\beta >-0.064$ and $P> 0.005$. this means that AC with dedicated and institutional block shareholders could bring about the needed monitoring that can improve on the financial reporting process as can be deduced from the

result. Further, the result suggests that dedicated block shareholders contribute actively in CG process; hence, firms with dominant and dedicated block shareholders could reduce the degree of creative accounting through mitigating agency related problems and enhancing the level of internal monitoring (Arowolo & Che-Ahmad, 2017). The result is consistent with some previous researches such as (Dai et al., 2017; Dou et al., 2018), on the block shareholder's ability to provide effective monitoring. Block shareholders could also lower managers' devious behaviour of choosing accounting techniques against IFRS that can only improves the profitability level of the firms for their selfish gain (Aldoseri et al., 2021.

Additionally, the result reveals that LADFE has a statistically significant and negative relationship with a parameter value of $p> 0.006$ and coefficient value of $\beta >-0.054$. This result indicates that H4 supports the relationship that exist between LADFE and DAC. The result is consistent with the argument that the LADFE can suppress managers' opportunistic behaviour and provide good earnings report by scrutinising services (Abdulmalik & Che-Ahmad, 2017, and has the most substantial influence on DAC due to their expertise, hence, reduce the extent of DAC practice of firms listed on the NSE ((Faruk & Hassan, 2014). Further, the result also align with the agency theory's notion that sufficient LADFE will make the auditors to be more exhaustive in their independent examination by bringing their experience and technical know-how to bear on the credibility of the financial report in IFRS business environment.

Again, the result of IFRS suggests a negative and statistically significant relationship with DAC showing parameter values of $p> 0.000$ and $\beta>-0.006$ respectively. It means that IFRS could influence lower DAC and provide more readable financial statement, and fair value accounting leading to detail disclose (Oussii and Boulila Taktak, 2018). The result affirms other empirical evidence that the adoption of IFRS resulted in the rise of the auditors' efforts (Emadfallatah et al., 2019). Further, the result affirms the argument that IFRS has brought significant difference to the former Nigerian-Generally Accepted Accounting Principles (N-GAAP) regarding earnings manipulation.

The result from the test of difference of pre-and post-IFRS adoption period's is presented in Table 6 below. The two periods difference is determined by R^2 results of Fixed Effect (FE) regression estimates using R^2 between. The overall R^2 result for the full sample (2009 to 2015) is 0.060 while the R^2 for the pre-IFRS (2009-2011) and post-IFRS (2013-2015) are 0.0500 and 0.1345 respectively, indicating a difference of 0.085 between the two periods. It is clear that the pre-and post IFRS periods jointly accounted for 0.05% and 13.5% of the changes in the AC performance measured by DAC respectively. This shows that DAC variables explain the changes in the AC performance after the IFRS adoption period better than the pre-IFRS adoption period. More precisely, Cramer's Z-statistic shows that the difference in the association between AC and DAC during pre-and post-adoption is significant statistically, signifying that AC leads to premium performance after IFRS becomes the reporting language. This result supports H5, leading to the inference that there is a significant difference in the association between AC and DAC before and after the IFRS adoption for the periods 2009-2011 and 2013-2015. Overall, accounting information in the regression model reveals an increase in the post-IFRS adoption as suggested by the regression power of R^2 between.

Table: 6. *Test of difference between Pre-and Post-IFRS adoption for DAC*

Variables	**Coef.**	**Std. Err.**	**Coef.**	**Std. Err.**	**Coef.**	**Std. Err.**
DAC						
L1.	-0.092**	0.043	-0.475***	0.093	-0.575***	0.103
ACSE	-0.088	0.055	-0.013	0.096	-0.121	0.205
ACCr	0.051	0.071	-0.119	0.124	0.515	0.255
ACBS	0.012	0.039	0.124	0.085	-0.143	0.146
LFRL	0.093	0.058	0.068	0.170	-0.014	0.128
LADFE	-0.066***	0.021	0.004	0.036	0.052	0.139
BSIZE	-0.005	0.008	0.044	0.021	-0.024	0.021
GRWTH	0.531	0.417	0.978	0.918	-0.049	0.982
ROA	-0.108	0.226	0.229	0.703	-0.497	0.343
PROF	0.056	0.101	-0.652**	0.281	0.371*	0.202
LFSIZ	-0.006	0.027	-0.007	0.051	0.086	0.070
	Pooled Sample		Pre-IFRS		Post-IFRS	
Periods	(2009-2015)		(2009-2011)		(2013-2015)	
R^2	0.060		0.050		0.135	
Z-Statistics						**-1.70****

This result is consistent with several previous studies such as (Fuad et al., 2022; Mbir et al., 2020; Setiawan et al., 2019), they all argue that IFRS adoption has curtail management myopia by reducing the extent of earnings smoothing. Others believe that the value relevance of accounting information has improved greatly due to IFRS adoption (Alkali et al., 2018; Mostafa, 2017; Umoren & Enang, 2015).

5.0 Conclusion and recommendation for future research

5.1.1 Conclusion

The study examined the effect of AC with shareholders as seating members in Nigerian listed firms after the adoption of IFRS and discretionary accruals. The study employed dynamic panel data using GMM and Cramer's z-statistics for the analyses, the study concludes that all AC variables are negatively related to lower DAC and that there is a significant difference on quality financial reporting after IFRS adoption among firms listed on Nigerian Exchange Group.

5.1.2 Recommendations

This study has offered various and significant recommendations to regulators and other stakeholders. First, regulatory reform such as adoption of IFRS could enhance in reducing the extent of managers' excesses and improves the quality of financial reporting. Policy makers should consider review of relevant Act such as CAMA and CG codes within a reasonable interval so that shareholders and prospective investors could have confidence on the financial

report. The AC's technical know-how, financial knowledge, and expertise could boost the capital market.

5.1.3 Limitation of the study

This study has its own limitations. The study employed data from 101 non-financial firms listed on the Nigeria Exchange Group neglecting financial institutions, hence, generalising the results to all listed firms is rather vague. The study only focused on AC shareholders not considering other AC characteristics such as independence, size and diligence etc. that other previous study reported as being instrumental to enhancing AC effectiveness concerning DAC. Further, the study disregarded the use of stock price model in testing the differences between pre-and-post IFRS adoption instead, only Cramer's z-statistics was used. Therefore, future study should look at both stock price and stock return models for similar research. Future studies should also seek to examine AC shareholders influence concerning DAC in financial institutions as well as DAC in IFRS reporting environment.

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