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**Audit Committee, Internal Control and Financial Reporting Quality of Listed Service Companies in Nigeria**

**By**

**AKANDE Faith Yetunde**

**(20PGDA000104)**

**An M. Sc Dissertation Submitted to the**

**Department of Accounting and Finance Landmark University, Omu-Aran. In Partial Fulfilment of the Requirements for the Award of Masters Degree in Accounting**

**August, 2022**

# DECLARATION

I, **Faith Yetunde AKANDE,** a Masters Degree student in the**Department ofAccounting and Finance** Landmark University, Omu-Aran, hereby declare that this dissertation entitled “**Audit Committee, Internal Control and Financial Reporting Quality of Listed Service Firms in Nigeria**”, submitted by me is based on my original work. Any material(s) obtained from other sources or work done by any other persons or institutions have been duly acknowledged.

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**AKANDE Faith Yetunde**

**(20PGDA000104)**

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**Signature & Date**

# CERTIFICATION

This is to certify that this thesis has been read and approved as meeting the requirements of the ***Department of* Accounting and Finance,** Landmark University, Omu-Aran, Nigeria, for the Award of Master Degree.

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| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Prof. Tony Ike Nwanji** Date  Supervisor  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Dr. David Eseosa Obadiaru** Date  (Co-Supervisor)    \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Dr. Samuel Fakile** Date  (Head of Department)  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Date  (External Examiner) |

# DEDICATION

This project is dedicated to Almighty Father, the real owner of all things and the giver of life who has by HIS mercies and grace made it possible for me to successfully carryout and completes this research work.

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# ABSTRACT

*As a way of curbing corruption and unethical practices that usually lead to corporate failure, organizations are expected to inculcate the habit of quality financial reporting in their operation procedures. The study examined the relevance of audit committee and internal control on financial reporting quality of listed service firms in Nigeria between the period of 2010 and 2020. Audit committee size, meeting, composition and female members were used as proxy for audit committee; control activities, risk assessment, monitoring, information and communication were used as proxy for internal control while accruals was employed as proxy for financial reporting quality. Furthermore, questionnaire was used to collect data regarding the internal control while audit committee data was collected through the annual reports of the listed service companies and a multi-stage sampling technique was used to determine a sample size of 50 from 74 listed service firms on the Nigerian Stock Exchange while 189 survey questionnaire statement was returned from 250. A mixed method approach of quantitative and qualitative analysis was used to analyse the data to determine the nature of relationship that exist between the explanatory and explained variables of the study. The study also carried out the descriptive statistics and test for outliers to establish the stationarity of data collected but Cronbach’s test was employed to establish the reliability of the primary data collected. Multiple linear regression analysis was adopted to test the hypotheses through the use Statistical Packages for Social Sciences (SPSS 23). The result of the test of hypotheses showed that audit committee size, female members, control activities, risk assessment and monitoring have significant influence on accruals, while audit committee meeting, composition, information and communication have insignificant relationship on accruals. Therefore, the study concludes that the relevance of audit committee characteristics and internal control components have significant relationship with quality financial reporting. This study recommends that 50%of the audit committee members should be female. Risk assessment, control and monitoring activities of the internal control should be done more frequently to be able to identify both internal and external hostile as they occur.*

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# CHAPTER ONE

# INTRODUCTION

## Background to the Study

Following many prominent corporate scandals caused by weak corporate governance in the 1980s the Committee of Sponsoring Organizations of the Treadway Commission (COSO) was formed with the goal of clarifying internal control and the criteria for setting up an internal control system's effectiveness. They looked at the elements that can contribute to the detection of false financial reporting and produced recommendations for public firms, independent auditors, educational institutions, the Securities and Exchange Commission (SEC), and other regulators (COSO, 1985). These elements are control environment, risks assessment, control activities, information and communication, and monitoring (Hanoon, Rapani and Khalid, 2020). Controls are most successful when they are constructed in the infrastructure of an organization and helps to enhance quality and empower programs, reduce wasteful costs, and enable swift reaction to changing situations," according to the framework (COSO, 1992).

Internal controls are the measures taken by a company to ensure that its goals, objectives, and missions are carried out. They are a set of rules and procedures put in place by an institution to guarantee that an organization's transactions are carried out properly to avoid wastage, embezzlement, theft, and asset misuse. In order to provide reasonable assurance regarding the accomplishment of an organization's goals in terms of operational effectiveness and efficiency, financial reporting reliability, and compliance with applicable laws and regulations, it is important to keep in mind that internal controls are procedures that are developed and implemented by those responsible for governance, management, and other staff (COSO, 2013). "All methods of internal control have limits that affect the possibility of success" which makes corporate failure persist (Ejoh and Ejom, 2014; Chang, Chen, Cheng and Chi, 2019).

Therefore, the need to improve internal control system of companies has been triggered by the persistence of corporate scandals that resulted from weak corporate governance and poor financial reporting. Although all businesses are required to keep accounting records and generate financial reports, the quality of their financial reporting is determined by the methodologies they employ to disclose their financial performance. Financial reports are regarded as being of high quality when they accurately reflect a company's financial status and performance in accordance with widely accepted accounting principles (Bajra and Čadež, 2018). One of the most crucial ways to offer information so that internal and external users may make economic and financial decisions is through financial reporting. Users of financial data, however, primarily rely on the data presented in the company's annual report. A financial report contains details about a company's performance and financial health, therefore it must be accurate, timely, trustworthy, relevant, and acceptable for potential investors, lenders, and creditors to make educated judgments (Baatwah,Salleh and Ahmad, 2013; Hamid, Othman and Rahim, 2015). As a result, the financial report should include complete, up-to-date, transparent, relevant, and dependable financial data that is not intentionally created to deceive users.

Regardless of the huge importance of financial reporting, the information embedded in it may not always be credible and dependable since it may contain inaccuracies, the willful distortion of accounting information, deliberate manipulations and a false representation of earnings which may eventually lead to the failure of firms (Armstrong, Guay, Mehran and Weber, 2016). However, a good internal control system, corporate governance and policy disclosure can help to reduce doubt in financial reporting trustworthiness by detecting financial manipulations that can be misleading to users, although lengthy feasibility may not be certain.

Because of these financial misdeeds that emanated from weak corporate governance, policymakers all over the world admonish financial institutions to establish audit committees that does not totally rely on company's management (Kibiya, Ahmad and Amran, 2016; Abbasi, Alam and Bhuiyan, 2020). They serve as a watchdog in any organization for quality financial reporting based on their ability to connect the external assessor with the Board of Directors (Cardinaels, 2013). They must also examine, assess, and keep track of the sufficiency and efficiency of internal control goals in compliance, reporting, and operations (Blue Ribbon Committee [BRC], 1999; American Institute of Certified Public Accountants [AICPA], 2008; Committee of Sponsoring Organizations of the Treadway Commission [COSO], 2012; Institute of Internal Auditors [IIA], 2012).

An audit's main goal is to check the accuracy of management's financial reports and have the responsibility to safeguard correct reporting processes as well as the formation and maintenance of acceptable accounting practices (Chang, Chen, Cheng and Chi, 2019). Their responsibilities have been expanded to include quarterly financial report oversight, based on existing regulations and desire for improved reporting. The shareholders who serve on an audit committee endeavor to raise the standard of financial reporting (Madugba, Nwanji, Faye and Ben-caleb, 2021). Every country's economy depends heavily on the service industry, which has been highlighted as having the ability to propel Africa's long-term growth (Jegede, Egbetokun and Siyanbola, 2014). Nigeria's service sector includes banking, retail and wholesale trade, tourism, real estate, telecommunications, Nollywood movies, information and communication technology, entertainment, and education (Osazevbaru and Taruhor, 2020) The industry with the fastest current growth rate is the service sector. It contributes significantly to overall employment and accounts for a sizable portion of the gross domestic product in the majority of countries. By 2015, the service sector had made up over 60% of Nigeria's GDP, with an average employment share of roughly 33% as opposed to 7% for the industry.

A thriving service industry is known to improve the performance of other economic sectors like manufacturing (Khanna, Papadavid, Tyson and Willem, 2016). This is because most sectors (manufacturing, industrial, etc.) heavily rely on the service sector to provide necessary activities like banking, accounting, information, and technology. As a result, the service sector both permits and supports the operation of most sectors (manufacturing, industrial, etc.). The additional outputs of the service sector are advantageous to manufacturing businesses that depend on outside suppliers for critical inputs like transportation, financing, design, and communication. The demand from the manufacturing sector and per capita personal consumption are the main forces behind the expansion of the service industry (Bottazzi and Gragnolati, 2015). Through increased efficiency and value added, the service sector has an impact on corporate growth as well. This can be achieved by hiring highly qualified, seasoned employees with particular cognitive skills, thereby increasing corporate efficiency. Adam Smith characterized services as non-productive, which is one reason why the viability and sustainability of the service sector-led expansion have been questioned (Gölpek, 2015). The service sector has been disregarded in both economic theory and applied economic research due to the idea that they are unproductive. Nigeria's economy depends heavily on the oil industry because it provides income for the entire nation (Adetokunbo and Edioye, 2020).

## **Statement of the Research Problem**

Numerous financial crisis and scandals such as the cases of Enron Inc., Adelphia Communications, WorldCom Inc., Lehman Brothers, Parmalat, Royal Ahold, Tyco International, Global Crossing, Northern Rock, Xerox, Waste Management, Rite Aid, Qwest, HBOS, Freddie Mac, Fanny Mae, Bear sterns and Hollinger International have further affirmed weak corporate governance practices in the world (Woidtke and Yeh, 2013; Cabello, Moncarz, Moncarz and Moncarz, 2009; Mushrif Rashid, Jasmin and Fadhil, 2021; Namakavarani, Daryaei, Askarany and Askary, 2021). Unfortunately, a number of more recent exposes in other multibillion-dollar firms have added to the list of corrupt corporations: America International Group (AIG), Countrywide Financial, Collins and Aikman, Delphi, Computer Sciences, Dell, Toshiba, Monsanto, and Nissan (Gorshunov, Armenakis, Harris and Walker, 2021).

Incidences of fraudulent financial reporting in Nigeria cut across both private and public organizations such as the Oceanic bank Plc., Intercontinental Bank Plc of Nigeria, Afri Bank Plc of Nigeria, Union Bank Plc, Fin bank Plc, NITEL, Nigeria Railway Corporation, Power Holding Company of Nigeria, Ajaokuta Steel Complex, Nigeria Air ways, Albarka Air, Transcorp, Cadbury (Nig.) Plc., Lever brothers (Nig.) Plc, Diamond bank and fuel subsidy scam have also remained a reference point and have weakened the confidence of investors, managers, legislators, and standards setters’ in financial reporting system (Nuhu, Umaru and Salisu, 2017; Aanu, 2017; Onyabe, Okpanachi, Nyor, Yahaya and Ahmed, 2018). The effects of these scandals include huge financial loss, dent on the reputation of the victims’ organization, loss of confidence in the capital market among others. Also, investors, particularly in the banking sector, appear to have lost trust in management's capacity to adhere rigidly to corporate governance principles and protect shareholders' cash.

Therefore, a strong corporate governance is important to the survival and quality financial reporting of organizations both internationally and locally. This is because these incidents testify to the audit committee's incapacity to effectively review the financial statements of the firms in question and assure compliance with corporate governance norms which made policymakers around the world to concentrate on corporate governance reform. As a result, regulatory agencies have been tasked with devising measures aimed at preventing future scandals and rebuilding public trust in financial markets (Bilal, Chen and Komal, 2018). In addition, significant audit committee quality is required to improve the quality of a company's financial reporting. As a way of curbing corruption and unethical practices that usually lead to corporate failure, the Nigerian Financial Reporting Council (NFRC) is operating on a sole corporate governance code for the country, however the Nigerian Code of Corporate Governance 2018 attempts to establish corporate governance best practices for her organizations. Since effective corporate governance is beneficial to business and can help Nigerian companies attract investment overseas. Although, this can only be possible when investors have faith and confidence in Nigeria's legal system and its ability to safeguard minority interests.

The code's goal is to provide a globally recognized internal control framework for organizations reporting in Nigeria, because proper internal control systems can lead to a better reporting process and, as a result, more reliable and timely reports, which increases management responsibility (Ozili, 2020). Internal controls are all the steps an organization takes to protect its assets from loss resulting from fraud, waste, abuse, mismanagement, and errors. They also ensure that accounting and operational data are accurate and reliable, that its policies are followed, that operations are organized, cost-effective, and efficient, and that laws, regulations, controls, and management directives are followed.

## 1.3. Research Questions

The following research questions would help provide answers to achieve the objectives of this study:

1. What is the effect of audit committee characteristics on financial reporting quality of listed service firms in Nigeria?
2. What is the effect of internal control components on financial reporting quality of listed service firms in Nigeria?
3. What is the effect audit committee characteristics and internal control components on financial reporting quality of listed service firms in Nigeria?

## Objectives of the Study

The main objective of the study is to examine the relevance of audit committee and internal control on effective financial reporting of listed service firms in Nigeria with the following specific objectives to:

1. determine the effect of audit committee characteristics on financial reporting quality of listed service firms in Nigeria.
2. determine the effect of internal control components on financial reporting quality of listed service firms in Nigeria.
3. examine the effect of audit committee characteristics and internal control components on financial reporting quality of listed service firms in Nigeria. \

## Research Hypotheses

Hypotheses used in this study are stated in null form

H**01**: Audit committee characteristics and financial reporting quality of listed service firms in Nigeria is not significant.

H**02**: Internal control components and financial reporting quality of listed service firms in Nigeria is not significant.

## Scope of the Study

This study only looked at the importance of internal control and the audit committee for quality financial reporting information about listed service companies in Nigeria. Internal control was measured in terms of control activities, risk assessment, monitoring activities, information and communication measured through a questionnaire statement, whereas the relevance of the audit committee was measured in terms of frequency of meetings held in a year, number of female members, number of non-executive members, and the total number of members. Accruals were used to gauge how well the financial reporting performed. Additionally, the annual reports of all service companies listed on the Nigerian Stock Exchange between the years 2010 and 2020, in addition to 2009, were utilized as a case study to calculate the changes in sales.

## Significance of the Study

The findings of this study will be of immense benefit to the following:

**Stakeholders**: This study shall be of immense benefit to the stakeholders, as it will show how well their interest is represented in the company

**Academic Community**: This study will serve as a base for further research in this area as it will reveal how serious those entrusted with public funds are. This research will add to the growing body of knowledge about the impact of audit committee and internal control on financial reporting effectiveness of organizations.

**The Government**: Timely reported financial statement will help government and ease the difficulties involved in tax assessment

**Management of companies in this study:** The management will gain from this study by learning how the audit committee sheds light and seeks to enhance the institutions' financial reporting.

**Regulators and policymakers**: This study will benefit both regulators and policymakers by providing ways of improving the timeframe for annual report issuance. In other words, it lessens the requirement for additional audit time and effort, which shortens the delay in audit reporting.

**Shareholders:** Timely reported financial statement will help reduce the chances of financial manipulations and makes the report more reliable thereby boosting investor’s confidence. In other words, it will attract investors thereby increasing shareholder’s wealth.

# CHAPTER TWO

# LITERATURE REVIEW

## Introduction

This chapter will be evaluating what has been covered by other researchers and analysts through a literature review. The goal of the review is to gather their perspectives on the subject matter being discussed to identify research lacunas that will be addressed by the proposed study. The study's conceptual, theoretical, and empirical frameworks are all supported by the topics discussed.

Control Activities

Risk Assessment

Monitoring Activities

Information and Communication

Audit Committee Size

Audit Committee Meeting

Audit Committee Composition

Audit Committee Female Member

Firm Age

Firm Size

StakeholdershipModel

ShareholdershipModel

Resource Dependency

Model

**Figure 2.1:** Conceptual Framework

## . Internal Control System

The conceptual framework deal with internal control which was defined by Liu and Huang, (2020) as a policy or practice that ensures operational efficiency, accurate financial reporting, and regulatory compliance in business operations. The internal control structure of the organization (also known as the internal control system) includes rules and processes that give relative assurance of accomplishing organizational objectives. According to Mohd, Juhaida, Said and Iskandar, (2015) internal control system is the policies and processes put in place to ensure the protection of an organization's assets and the accuracy of financial reporting. Internal control can only give a company's goals a "reasonable assurance," not a "absolute certainty," that they will be achieved (Li, Wang, Wu and Zhou, 2021).

Implementing a proper system will assist the organization in becoming more successful and efficient in its operations. Internal control systems, as defined by (Ajao and Amosun, 2020), are the combined methods, strategies, and processes that secure a firm's assets, improve financial and operational performance, and foster adherence to specified regulations. Effective administration of a company's internal control system necessitates the use of judgment. To evaluate how much control is enough in the organization, management and the board of directors utilize their judgment. Daily, management and other people utilize their judgment to pick, develop, and apply controls across the firm. When it comes to monitoring, assessing, and testing the efficacy of the internal control system, management and internal auditors use their judgment. The SEC defines internal control as "a process used by a board of directors, management, and other individuals to provide reasonable assurance over the accuracy of financial reporting for a company" (Doyle, Ge and Mcvay, 2007). To safeguard investors against insider trading, securities authorities around the world are increasingly relying on oversight of corporations' internal controls over financial reporting which bring about specific rules in Sarbanes-Oxley Act of 2002 (SOX) and the Dodd-Frank Wall Street Reform and Consumer Protection Act 2010 (Schantl and Wagenhofer, 2021).

### 2.2.1. Control Activities

Control activities are procedures and policies that assist in putting management directives into action. One of the most crucial control jobs is the segregation of duties. It is best to assign various personnel the tasks of authorizing and recording transactions, keeping custody of assets, and conducting comparisons and reconciliations. Small firms could find it challenging to divide responsibilities effectively, but organizations should make every effort to do so. Effective management monitoring should be offered in situations when segregation is not feasible to make sure that any mistakes or anomalies are found as soon as possible. Controls can be used at different organizational and functional levels and have a variety of aims.

Generally, control can be in two categories: Preventive and corrective controls. Preventive controls concentrate on avoiding mistakes or irregularities. Here, the detective keeps their attention on determining when a mistake or irregularity has happened. Corrective controls concentrate on overcoming, mending the harm caused by, or reducing the expense of an error or irregularity.

### 2.2.2. Risk Assessment

Risk assessment is the process of locating and analyzing dangers that can prevent an organization from achieving its objectives. Management will be able to decide how to mitigate and manage risks if it can identify them correctly. Risk factors from the inside and outside are also conceivable. As changes in an organization's risk assessment, such as staffing, new policies, new software applications, new legislation, and so forth, can all have an influence, management should regularly analyze risk. Control activities are procedures and policies that assist in putting management directives into action. One of the most crucial control jobs is the segregation of duties. It is best to assign various personnel the tasks of authorizing and recording transactions, keeping custody of assets, and conducting comparisons and reconciliations. It may be challenging for small businesses to divide responsibilities effectively, but organizations should make every effort to do so. Effective management monitoring should be offered in situations when segregation is not feasible to make sure that any mistakes or anomalies are found as soon as possible. Controls can be used at different organizational and functional levels and have a variety of aims such as:

* Principle of Separation: Financial and accounting processes need to be kept apart, thus different people should handle cash and record its movements.
* Responsibility: It is important to establish responsibility up front so that there is no opportunity for uncertainty or doubt in the future.
* Principle of Scepticism: Don't place too much faith in any one person. Nearly all frauds have been carried out by dependable employees or officials. The rigid governing concept should be the rotation principle, which deals with the transition of an employee from one job to another. Work should be set up so that it is immediately checked by another independent employee after being completed by one person.

### 2.2.3. Information and Communication

Information and communication make up the fourth element of internal control. In order for staff to perform their jobs, it is necessary to quickly identify and transfer the information they need. For instance, timely financial reporting can assist management in identifying operational abnormalities like diminishing margins and huge reserves. The procedures and documents used to document, preserve, and report an entity's occurrences as well as to retain accountability for the associated assets, liabilities, and equity makes up the information system. The dissemination of knowledge about individual duties and responsibilities in relation to internal controls is the focus of this component's communication element. People should be aware of how their actions relate to other people's work and how to report exceptions to higher levels of management. Open lines of communication make it easier to make sure that anomalies are reported and addressed. The policy manuals, accounting manuals, and financial reporting manuals are all part of communication.

### 2.2.4. Monitoring Activities

Monitoring is a crucial part of management when it comes to internal control. All controls are monitored and evaluated to see if they are operating as intended by top management. Management must make the appropriate adjustments if controls aren't operating effectively. Internal control or quality assurance departments are regularly employed to monitor. (Babalola, 2020) advised managers to develop internal controls while pursuing integrity and transparency, setting clear goals, cultivating connections for organizational buy-in, following through on commitments, educating others, outlining consequences, and rewarding improvement. Monitoring is the procedure used to gauge how well internal controls have performed over time. It entails promptly evaluating the controls' design and functionality and implementing any necessary corrective measures.

Management conducts continual monitoring actions to complete this process because their operational knowledge is very different from their own. Continuous assessments, independent evaluations, or a combination of the two are used to assess whether each of the five components of internal control, including controls to alter the principles within each component, is present and functional. Current data is provided by ongoing evaluations, which are integrated into business processes at all levels of the organization. The scope and frequency of separate periodic evaluations will vary based on the risk assessment, the success of existing evaluations, and other management considerations. Any shortcomings are communicated to management and the board of directors after findings are compared to standards established by regulators, reputable standard-setting organizations, or management (COSO, 2013).

According to (Vu, Thi and Nga, 2021), Internal control systems, according to the COSO, play an essential role in company management, particularly in managerial decision-making that encompasses the five tasks of management: setting goals, planning, organizing, implementing, and controlling. Chang *et al*., (2019) and Doyle *et al*., (2007) emphasized that the internal control requirements provide that internal control should offer a reasonable level of certainty regarding the accomplishment of the three primary goals in the following categories:

* Effectiveness and efficiency of operations: These goals concern the accomplishment of a department's primary mission(s) as well as the effectiveness and efficiency of its operations, including maintaining performance standards and protecting assets from theft.
* Financial reporting reliability, timeliness, and transparency objectives: These goals are related to the compilation of trustworthy financial reports, including the avoidance of fraudulent public financial reporting: financial reporting reliability, timeliness, and transparency objectives;

Table 2.1: Biggest Threats to the Internal Control Structure

|  |  |  |
| --- | --- | --- |
| 1. | Management Override | If ignored at management's choice, a well-designed control mechanism may provide as much danger as none at all. |
| 2. | Access to Assets | Controlling access to assets is the greatest method to protect them. |
| 3. | Substance over form | Even if control seems well-designed, it might not be. |
| 4. | Conflicts of Interest | When an employee's loyalties are conflicted, there is a real possibility that they will make a decision that is bad for the company. |
| 5. | Failure to Anticipate Certain Risks | Certain hazards may go unanticipated by management, which could prevent the design and implementation of effective controls. |
| 6. | Collusion | Internal controls may be overridden with the consent of two or more personnel. |

## Audit Committee

Numerous recommendations for increased audit committee effectiveness have been made in response to accounting scandals and worries about the reliability of financial statements. Therefore, having a robust audit committee is one of the most crucial components of excellent corporate governance (Kusnadi, Leong, Suwardy and Wang, 2016; Tai, Lai and Yang, 2020). The audit committee, a subcommittee of the corporate governance board, is in charge of the financial reporting process, internal control framework, internal audit functions, and external audit operations (Salloum, Azzi and Gebrayel, 2014; Kartal, Ibis and Catikkas, 2018; Davidson, Xie and Xu, 2004; García-Sánchez, Garcia-Meca and Cuarado-Ballesteros, 2017; Zalata, Tauringanaa and Tingbani, 2018; Obermire, Cohen and Zehms, 2021). It can be considered an effective tool to ensure corporate governance in an organization because it is primarily made up of independent or non-executive directors. This committee seeks to strengthen the Board's capacity to carry out its legal obligations and to guarantee the impartiality and reliability of the financial reports (Johnston and Nowland, 2017; Nik-Salleh and Haat, 2016; Bronson, Carcello, Hollingsworth and Neal, 2009). They have regular meetings with the company's internal financial managers and external auditors to discuss the financial statements, audit procedure, and internal accounting controls (Woidtke and Yeh, 2013).

To guarantee high audit quality, the committee typically serves as a liaison between the internal auditor, external auditor, management, and board of directors. They may examine the nomination of auditors, the overall audit plan, the audit's findings, internal financial controls, and financial data for publishing, among other things. More specifically, they are in charge of directing the auditors' work and coordinating with management and auditors to achieve excellent audit quality (Namakavarani *et al*., 2021; Alhababsah and Yekini, 2021). Management will be less pushy if the audit committee is successful, and the auditor will satisfy their need with a high-quality audit Baatwah *et al.*, (2013a) consider that they are a crucial component of the decision-control system for the board of directors' internal oversight and list numerous of their responsibilities, which mostly center on boosting business performance and shareholder wealth. The current SEC guidelines mandate that member businesses of all national exchanges (such as the NYSE and NASDAQ) establish a committee with independent members and specific tasks to ensure that higher-quality accounting information is created and distributed. Researchers such as Bédard, Chtourou and Courteau, (2004); Krishnan, (2005); Klein, (2002); Bhuiyan, Rahman and Sultana, (2020) have discovered that the composition and structure of audit committees have an impact on the reliability of internal controls, the accuracy of publicly issued financial information, and the availability of possibilities for earnings management. Policymakers, regulators, and researchers have highlighted the supervisory duties of boards of directors and audit committees among corporate governance components. This emphasis is supported by the notion that independent, knowledgeable, and proactive boards and audit committees may and should play a crucial role in safeguarding investors' interests (Zhou, Owusu-Ansah and Maggina, 2018; Poretti, Schatt and Bruynseels, 2018; Davidson *et al*., 2004). The financial statements supplied to users can be made more credible and reliable with the help of a strong audit committee.

Since audit committees are in charge of overseeing financial reporting and audit activities in businesses, they were included in this discussion (Kartal *et al*., 2018). Monitoring and attempting to assure the objectivity and independence of external auditors, reducing management pressure on auditors, and enhancing the integrity of financial statements are some of the main duties of the audit committee (Wu, Hsu and Haslam, 2014). The PCAOB Auditing Standard No. 5 (2007), which requires external auditors to assess the effectiveness of the audit committee as part of their evaluation of the system of internal controls, now specifically addresses the idea of audit committee diligence (Rupley, Almer and Philbrick, 2011). Many researchers have suggested that the audit committee is essential to ensure the effectiveness of corporate governance mechanisms through four main characteristics (independence, number of meetings, size, gender diversity, composition and financial expertise) Since the effectiveness of this committee is influenced by their characteristics (Syofyan, Septiari, Dwita and Rahmi, 2021; Salloum *et al*., 2014; Kharashgah, Amran and Ishak, 2019), we shall be examining two audit committee characteristics, namely, member size and meeting frequency.

### Audit Committee Meeting

According to Othman, Ishak, Arif and Aris, (2014), The number of meetings the committee holds within a corporation in a year is referred to as the audit committee meeting. All publicly traded businesses should form "fully constituted audit committees as a vital step in enhancing standards of corporate governance," according to the Cadbury Committee's (1992) recommendation. Meeting frequency reveals the effectiveness of the oversight committee's work and the reliability of the data presented. The committee's frequent meetings suggest that they want to be careful and informed. This demonstrates that investors from the outside perceive less risk when investing in businesses that hold more meetings and perhaps demand less standards-setting procedures for corporate reporting. The committee will have more time to monitor the business's financial reporting process if it meets more frequently (Syofyan *et al*., 2021).

The study by Kalbers and Fogarty, (1993) demonstrate how the efficacy of the audit committee is influenced by the frequency of meetings. It is anticipated that the frequency of meetings will grow because the more frequently they meet, the easier it will be for the audit committee to monitor the management company's operations (Menon and Williams, 1994; Lee and Mande, 2005; Stewart and Munro, 2007). Committee members should be willing to spend more time auditing in order to be more effective (Lee, Tsun-Siou and Yin-Hua, 2004). The frequency of audit committee meetings, according to earlier research, is related to higher profits quality (Xie, Davidson and DaDalt, 2003; Vafeas, 2005). However, Australian researchers found no conclusive evidence linking the number of meetings to profits management (Kamolsakulchai, 2015; Hasan, Kassim and Hamid, 2020). According to Almuzaiqer, Ahmad and Abdul Hamid, (2018). It is clear that audit committees that hold more meetings throughout the year are thought to be more successful and efficient, as well as having a larger capacity for problem-solving. The auditor would have to report to the audit committee while conducting their audit, specifically regarding audit report latency. It would be quicker if the meetings were held more frequently if there were any issues that needed to be resolved or actions that needed to be approved. The agency theory, which advocates enhanced monitoring, is consistent with holding more regular meetings. As a result, there will be less of an audit report lag and the audit process won't be hampered by it.

The Code of Corporate Governance in Nigeria (2002) stated that the meetings of the audit committee for a public and private organization are generally timed to match the regulatory reporting and audit cycle, that they should meet at least three times during the financial year, and that the quorum for their meetings would depend on the number of members of the committee. This is in accordance with current governance recommendations with respect to audit committee characteristics. A meeting with the external auditors should also be held at least once a year without the presence of the executive board members (Ghafran and Yasmin, 2018; Owolabi and Dada, 2011; Ghafran and O’Sullivan, 2017). It is advised that in order to maintain effective oversight of the organization's assurance processes, the committee may need to convene at least eight times annually (Hamdan, Mushtaha and Al-Sartaw, 2013).

### Audit Committee Member Size

The number of members on an audit committee within a corporation is referred to as the audit committee size (Miko and Kamardin, 2015). It is envisaged that by adding the aforementioned standards in the audit committee, more independent members with more resources and skills will be able to oversee the financial reporting process (Nik and Hassan, 2016). Previous research has demonstrated that the effectiveness of an audit committee is positively impacted by the size of the committee, expressed as a number. This is due to the fact that having a suitable number of members on the audit committee is preferable to having a small committee (DeZoort, Hermanson, Archambeault and Reed, 2002). The effectiveness of the audit committee, however, is probably going to have issues if it grows too big. Process and workload distribution are excessive because a sizable committee might incur more losses. As a result, prior research has demonstrated that an audit committee of the appropriate size will ensure that financial reporting is monitored to the highest standards (Kamolsakulchai, 2015). According to the resource dependency theory (Madi, Ishak, and Manaf, 2014), larger committees are more likely to commit more resources and power to carrying out their duties (Allegrini and Greco, 2011). To ensure effective monitoring, audit committees with more directors are more likely to contribute a diversity of perspectives, knowledge, experiences, and abilities (Bedard and Gendron, 2010).

### Audit Committee Composition

The Cadbury Committee's (1992) suitable test's main tenet was that it should only be made up of non-executive directors, have a minimum of three members, and have a majority of independent non-executives. The independence and financial knowledge of the audit committee members have traditionally been the focus of prior study on the composition of audit committees. The duration of the audit committee and the number of other directorships are two additional factors that recent research is starting to look into. (2006) Sharma and Iselin both of these factors seem to have positive and negative effects on the expenses associated with agencies. Some contend that a director's experience can be gauged by the number of other directorships they have held (Fama and Jensen, 1983; Gilson, 1990). Others, on the other hand, contend that having too many directorships might negatively impact the amount of attention that can be devoted to a specific company, resulting in inferior supervision (e.g., Council of Institutional Investors 1998). According to Sharma and Iselin (2006), independent audit committee members who serve on numerous boards have a motivation to preserve their reputations. They discover that these directors have a bad relationship with financial reporting (Barua *et al*., 2010).

### Audit Committee Female Members

The quality of financial reporting was correlated with the personal characteristics of senior executives, particularly sexual orientation. The effectiveness of influencing factors and the performance of leadership teams appear to differ significantly. Audit committees with a preponderance of women would act differently than audit committees with mixed gender. Accounting knowledge output is influenced by top executives (Hillary and Hsu, 2011). While Erhardt, Werbel, and Shrader (2003) revealed that board diversity is favorably correlated with profitability, they also found that gender diversity in the audit committee is linked to performance. According to agency theory, a firm's financial reporting quality may be impacted by this diversity in top managers' personalities (Ling, 2012).

The need for a gender-diverse audit committee is equal. When it comes to carrying out their duties, different genders have different views and ethical standards. It has been found that women are more moral in their obligations than men (Bilic and Sustic, 2011). A female board member improves the performance of unhealthy companies and is viewed as a support for male directors. The quality of financial reporting has been connected to individual traits including gender. Additionally, audit committees with representation from both genders outperform groups with only one gender represented (Olowookere, Oyewole and lamidi, 2021).

## Financial Reporting

According to Abernathy, Kang and Krishnan, (2012), being able to help users of financial statements establish expectations about the company's future financial performance is one of the key qualities of high quality accounting information. According to the IASB (2008), raising the standard of financial reporting is crucial because it will encourage investors and other stakeholders to make investments, which would ultimately increase market efficiency. Since both quantitative (accuracy and completeness) and qualitative (comparability, understandability, and timeliness) features contribute to the quality of financial reporting. In this study, it is argued that strong internal control components and audit committee characteristics may enhance the company's financial reporting quality, which is demonstrated (among other things) by relevance, reliability (faithful representation), comparability, and timeliness of financial reporting (IASB, 2010; Puasa, Salleh and Ahmad, 2014).

Baatwah, Salleh and Ahmad (2013:72), stated that.

*“The number of days between the end of the fiscal year and the date on which financial reports are distributed to various stockholders is what is meant by the term "timeliness of financial reporting" (e.g., management; investors; shareholders). In order to help internal and external users make economic and financial decisions, financial reporting is a crucial tool. The conceptual framework for financial reporting portrays the timeliness of financial reporting as one component of information qualitative qualities, and thus has a sensitive impact on the decisions made”.*

The American Accounting Association (1957) emphasizes that for accounting information to be useful, financial statement timeliness should be taken into account. Stakeholders, regulators, professional associations, academics, financial analysts, investors, and managers are taking notice of this emphasis because they value timely information in decision-making. For instance, listed businesses must adhere to deadlines for financial reporting in most capital markets throughout the world at the moment, or the capital market authorities would apply penalties against late filers (Baatwah *et al*., 2012).

Good financial reporting is the cornerstone of good governance and a key tool for cutting a firm's agency costs (Cai, Hillier, Tian and Wu, 2015). The literature argues that organizations should deliver financial reporting to users in the short period of time between year-end and public publication, citing numerous benefits of timely financial reporting (Abdulla, 1996). The cornerstone of investors' judgments, according to Ekienabor and Oluwole, (2019), is timely information, and investors want to have that information as soon as possible. Additionally, it is said that prompt reporting is a crucial tool for reducing insider trading, information leaks, and rumours (Owusu-Ansah, 2000); lessen information asymmetry and the potential for rumours to circulate regarding the financial performance and health of the companies (McLelland and Giroux, 2000). The signalling function of timely financial reporting is also discussed in recent literature in relation to audit risk, management integrity, internal control, and financial reporting quality (Mande and Son, 2011; Carmichael, Ghosh and Lee, 2011; Baatwah *et al*., 2013b). Recent study shows that corporate governance procedures should support timely financial reporting given the significance of timely financial reporting (Ghafran and Yasmin, 2017).

This is due to the fact that timely financial reporting is a crucial part of the notion of transparency, which is regarded as one of the qualities of good corporate governance practice by well-known international organizations like the Organization for Economic Cooperation and Development (OECD). The number of days between year-end and the auditor signature dates is known as the audit report lag, which is the most commonly used proxy for financial report timeframes (Leventis, Weetman and Caramanis, 2005; Baatwah *et al.*, 2012). Numerous studies have demonstrated the importance of timely audit reports since they are linked to the public's confidence in the audited financial statements (Ettredge, Li, and Sun, 2006) and have negative effects if they are delayed (Salleh, Baatwah and Ahmad, 2017). Having access to pertinent financial data can influence the choices consumers make. Decisions are affected by financial information if it has confirmatory, predictive, or both types of value. If financial data can be utilized as an input to forecast future events, it has predictive value. If it offers commentary on earlier evaluations, it is confirmatory in nature (IASB, 2018).

An essential qualitative characteristic of accounting information is the phrase "reliability" in regard to financial reporting. This crucial phrase could determine whether or not readers of financial statements will find the material beneficial. The usefulness of information made available to different consumers is significantly influenced by the credibility of audited business annual financial reports. The accounting industry has acknowledged that the dependability of reports is a crucial aspect of financial accounting information for professional and governmental organizations. Decision-makers can be certain that the data in the financial records accurately reflects the conditions and occurrences of the reporting entity thanks to the idea of reliability (Adediran, Alade and Oshode, 2013). The qualitative trait of comparability is what enables people to recognize and comprehend similarities in and differences between objects. When financial information about a reporting entity can be compared to similar financial information about other entities and to similar information about the same entity for a different accounting period or another accounting date, the comparison becomes more meaningful (IASB, 2018). Financial statements should be able to provide accurate, complete, comparable, and pertinent information, which is primarily made possible by the audit committee's successful and efficient operation (Onyabe, Okpanachi, Nyor, Yahaya and Ahmed, 2018).

In conclusion, a financial report is crucial because investors utilize it to guide their actions. It discusses the financial stability and projected performance of the company. Therefore, firms that provide incorrect financial disclosure and fail to timely report the firm's present condition may exhibit the characteristics of an ineffective audit committee, rendering the report meaningless. Investors, regulators, and other users of financial statements can understand and identify any criteria connected with good financial reports with the help of information on the features of an audit committee, especially in a competitive corporate environment. Investors' understanding would motivate businesses to voluntarily build an efficient control system to assure accurate financial reporting (Hamid, Othman and Rahim, 2015). In this study, financial reporting quality was measured using the accrual method. The accrual model measures the extent of earnings management under existing legislation. The theorist believes that earnings are the most crucial in organisations, and when it is negatively affected the company’s performance will be affected. Thus, it is calculated as:

ΔWCit = CFOit – 1 + CFOit + CFOit + 1 + ΔREVit + PPEit + ε

ΔWC = the change in working capital accruals or current accruals from the statement of cash flows.

CFO = the cash flows from operating activities.

ΔREV = change in revenue.

PPE = property, plant and equipment.

### Firm Characteristics

According to Nattawut and Sirilak, (2018), due to the possibility that company characteristics could affect the expected correlations between firm age and size, two control variables: Firm size and firm age are taken into consideration. Firm size (FSIZE) is determined by the total assets of the firm, whereas firm age (FAGE) is determined by the length of time a firm has been in business. Due to its potential to reach high performance, a firm's age and size may have an impact on its ability to provide successful accounting information (Gotti and Mastrolia, 2012; Tontiset, 2018).

# Theoretical Review

The Shareholdership Model, Stakeholdership Model, and Resource Dependence Theory are the models of corporate governance theory that are applicable to this research project. The stakeholder theory, which was covered in the previous chapter, is viewed as the German form of corporate governance, while the shareholder theory is considered to be the conventional Anglo-American model. Over the past 20 years, the importance of corporate governance has progressively increased. The Cadbury Report on the Financial Aspects of Corporate Governance in the UK, published in 1992, provided the groundwork for corporate governance not only in the UK but also in other nations throughout the world, whose corporate governance rules have adopted its key tenets. Corporate governance seeks to guarantee that the boards of directors perform their duties effectively. A policy advises the boards and managements on how to best utilize the company's resources in order to boost shareholder wealth returns. The Cadbury Reports (1992), which are cited in chapter 2 of this thesis, characterized corporate governance as:

*“the framework for managing and directing businesses. The management of their firms is the responsibility of their boards of directors. The shareholders' function in corporate governance is to elect the board members and auditors, as well as to ensure that the proper governance framework is in place. (Para. 5). (Stated in Nwanji, 2006:169)*

## Shareholdership Model of Corporate Governance

Nwanji and Howell, (2007) stated that:

*“Profit maximization is the foundation of the conventional Anglo-American Model of corporate governance, which asserts that it serves to safeguard the interests of shareholders. The idea of profit maximization is a product of the free market economy. The pricing system controls this. The general economic prosperity of society is not maximized by an individual entrepreneur's pursuit of profit.”*

The agency theory, which was developed by Berle and Means, falls under the shareholdership idea (1932). They looked at the idea of agency and its implications for the growth of big businesses. They discovered how the directors' and managers' interests differed from those of the company's owners, and used the notions of agency and principal to explain how such conflicts came about (Agwor and Onukogu, 2018). The link between the primary and the agent is how Jensen and Meckling (1976) defined the agency theory. In a business, the principals are the investors, and the agent is the management. Based on current contracts, the relationship between the principal and the agent. According to agency theory, each party acts in their own best interest (Feng, McVay and Skaife, 2015; Nwanji and Howell, 2007).

## Stakeholdership Model of Corporate Governance

This theory, which combines organizational and social theories, first emerged in the 1970s. It is a more in-depth study that integrates philosophy, ethics, political theories, economics, lows, organizational, and social sciences. Colbert, Freeman, and Wheeler (2003). The premise of this theory is that when businesses grow and have a deeper impact on society, they should pay attention to and hold more segments of society accountable since they share interests (except stockholders). In other words, shareholders not only have control over the corporation, but also the company has influence over them. Instead of stocks, the stakeholders are interested in the companies. Stakeholders are people who are obligated to support a manager's decisions, such as stockholders, employees, vendors, debaters, neighbouring businesses, and the general public. If a stakeholder can satisfy all of the stockholders' rights, or if they are accountable to all stockholders, they will move forward successfully in the long run and have a higher chance of achieving their goals. In fact, this approach asserts the company's liability to these employees. Additionally, according to this theory, businesses achieve their objective of creating money or value for their owners by converting their stocks into commodities and services. The agency theory's point of view dominates the stakeholder model. According to this perspective, management refers to those people who rely on the board of managers for information and where the board of managers' function has been altered to supervisor. In accordance with this theory, similar to agency theory, the board of managers sets up the policies and strategies of the commercial unit, with a general emphasis on defining new goods, markets, and technology while also supporting executive management and long-term objectives. It should be highlighted that in this perspective, aptitude, knowledge, skill, and competency are all external resources (Royaee and Dehkordi, 2016).

## Resource Dependence Theory

Some academic articles also employ the resource dependency theory to describe corporate governance (Pfeffer and Salancik, 1978). According to the thesis, organizations and the environment in which they work are interdependent. Organizations will rely on the resources and knowledge offered by other businesses and the agents of the milieu in which they operate to secure their survival. Organizations compete with other entities using the same limited resources in these situations. These theories do not consider other interest groups like clients, employees, business associations, and/or suppliers, among others, and are restricted to analyzing the relationships between partners, professional managers, the governing council, and the environment in order to establish the most crucial elements of corporate governance. The theory of stakeholders, developed by Freeman in 1984, holds that organizations should be accountable to a number of internal interest groups in addition to shareholders since all of these groups have the potential to influence how goals are attained achieving the organization's goals and, as a result, commercial success. Applying agency theory is necessary. This is because having more effective boards of directors would help to lessen the gaps between shareholders and executives (Alfonso and Castrillón, 2021; Al Lawati and Hussainey, 2021).

# Empirical Review

The impact that application of good corporate governance principles, implementation of internal control systems and compliance with laws could have on the quality of financial reports were examined by Setiyawati, Hidayah, Rahmatika and Indriasih, (2020). Good corporate governance principles were measured in terms of transparency, accountability, responsibility, independency and fairness while a good internal control system was measured in terms of good control environment, risk assessment, control activities, information and communication and monitoring. Also, compliance with audit laws was measured in terms of sociological foundation, philosophy foundation and juridical foundation while FRQ was measured in terms of relevance, reliability, comparability and understandability. When the hypothesis formed based on these variables was empirically evaluated using path coefficients, R square and reliability tests, results obtained revealed that the variables measured have a significant effect on FRQ.

According to Freeman's 1984 formulation of the stakeholders’ theory, businesses should be held accountable to a number of internal interest groups in addition to shareholders since each of these groups has the ability to have an impact on how objectives are reached. The agency hypothesis must be used. This is due to the fact that having boards of directors that are more effective would contribute to closing the gap between shareholders and CEOs.

Agyei-mensah, Agyemang, and Ansong investigated the relationship between the efficacy of the AC members, audit quality, and the disclosure of internal control information (2019). The analysis analyzed financial data from 210 companies that were listed between 2013 and 2017 on the Ghana Stock Exchange. The size of the audit committee, audit firm, and board all contribute to the disclosure of internal control information, according to the findings of univariate and multivariate analyses. As a result, the disclosure of internal control information is frequently influenced by effective AC and audit quality.

Researchers in Nigeria looked at how internal control activities impact the financial performance of tertiary institutions (Ejoh and Ejom, 2014). A survey research design involving the use of questionnaire was also used to elicit information from 63 respondents. Afterwards, responses received were analysed using correlation coefficient, simple percentages, z-scores and tables. The study submitted that there is a distinct separation of roles among the accounting and finance department of the institution under the supervision of the head of the institution. However, the study found that there was no correlation between the institution's financial success and internal control operations.

The implication of weak internal control measures and financial reporting for financial analysts was studied by Clinton, Spina and Skaife, (2014). Their findings revealed that an organization with weak internal control measures will always have insignificant earnings forecasts by financial analysts. This result implies that the detrimental impact of weak internal control on the accuracy of companies' financial reports cannot be offset by analysts' acquisition of private information. As a result, users of financial statements are exposed to more information uncertainty due to poor internal control.

Moreover, the impact that the chair of an AC with financial expertise could have on the preparation of a quality financial statement was studied by (Baatwah *et al*., 2016). Panel and Omani data were used as proxies for determining the financial reporting timeliness. Results obtained revealed that having an AC chair with financial expertise will always enhance timely financial reporting. The study also revealed that having accounting and non-accounting financial experts among the AC members will results in timely financial reporting.

A study to know the effect that AC membership could have on quality financial reporting among selected Indian companies was carried out by Shankaraiah and Sajjadian-Amiri, (2017). The study used a total of 133 companies that were listed on the Bombay Stock Exchange between 2002 and 2012. The study's results were analyzed using regression analysis and Pearson correlation coefficients, and the impact of the independent variables was assessed using a T-test and an ANOVA. The findings showed that board size, the number of AC meetings, and the size of the AC have a significant relationship with the quality of financial reporting, whereas the CEO tenure and position, board independence, net income, the percentage of independent directors on the board, the legal and financial qualifications of the directors, and the overlap of AC members on the compensation committee do not significantly affect the quality of financial reports.

Oji and Ofoegbu (2017), investigated the impact of AC characteristics on financial reporting of listed companies in Nigeria. The research's data came from surveys given to 145 administrative staff members of chosen listed companies in Rivers State. The data was then analyzed using ordinary least squares regression. The findings demonstrated that the credentials, independence, and monitoring responsibilities of the AC members had a considerable and favorable impact on the financial reporting of listed companies in Nigeria.

Similar to this, Onyabe *et al*., (2018a) evaluated the impact of AC meetings and competence on EFR of listed deposit money banks in Nigeria. Between 2007 and 2016, panel data from the annual reports of fifteen (15) listed deposit money institutions were used in the study Shu, Chen, Lin, and Chen (2018) also looked at the relationship between internal control quality and corporate integrity. The relationship between corporate integrity and internal control quality was evaluated using special survey data. The outcomes showed that internal control flaws are significantly and adversely related to corporate integrity. The outcome also demonstrated that negativity is more prominent when there is less judicial progress or market rivalry. The authors argued that strong corporate governance can improve the link between internal control effectiveness and corporate integrity.

The influence that audit committee characteristics might have on the calibre of financial reporting of listed companies in Nigeria was examined by Tanko and Siyanbola, (2019). The analysis examined 19 oil and gas companies that were listed on the Nigerian Stock Exchange between 2009 and 2018. The data was analyzed using correlational and ex-post facto research techniques, and the results showed that company size and age had a substantial impact on FRQ while AC size, leverage, and gender diversity have no impact on FRQ.

The impact of the performance and makeup of audit committee members on creating high-quality financial reports was investigated by Alawaqleh and Almasria, (2021). Internal audit managers, AC members, and finance managers of a few manufacturing companies listed on the Amman Stock Exchange in Jordan each received one of 275 questionnaires. Results from the use of multiple regression to evaluate the theories showed that there is a positive effect AC performance and composition on FRQ.

Kurauone, Kong, Sun, and Muzamhindo (2021) conducted research on the effects of IFRS, auditing, and legal enforcement on tax evasion among 37 African nations between 2008 and 2017. For their data analysis, the authors used three stages of least square regression. According to the findings, early IFRS adopters and jurisdictions with strict legal enforcement demonstrate a negative and significant relationship between IFRS and tax evasion, whereas late IFRS adopters and jurisdictions with lax legal enforcement demonstrate a statistically insignificant relationship between IFRS and tax evasion. However, the analysis demonstrated that the adoption of IFRS will unquestionably enhance the caliber of financial reporting and reduce tax fraud.

In a study published in 2020, Din, Cheng, Ahmad, and Sheikh investigated how internal control and its components, as well as financial reporting quality, are regulated by the expertise of AC female chairmen. From the annual reports of 302 businesses that were listed on the Pakistan Stock Exchange between 2010 and 2016, the study's data was manually taken. The study's findings showed that the quality of male peers' financial reporting is enhanced by the accounting knowledge of AC female chairperson. They also showed that female AC chairpersons with accounting backgrounds enhance internal control mechanisms, including information and communication, the control environment, and control activities. Hasan, Kassim, and Hamid (2020) conducted research on the effects of audit quality and audit committee on FRQ among Malaysian enterprises. A multiple regression analysis was conducted to assess the proposed hypothesis. The findings showed that while AC independence and size have negligible effects on FRQ, financial accounting skill and meeting had considerable effects.

Chalevas and Koutoupis, (2021) looked at the effect that having the correct individuals on an audit committee could have on the calibre of financial reporting. Data on the Audit Committee's compliance with new audit laws intended to ensure accurate financial reporting was gathered using a standardized questionnaire that was distributed to 138 Public Interest Entities (PIEs) for the 2018 calendar year. The consistency of the financial reporting was employed as the dependent variable, and the makeup and expertise of the AC were used as the independent variables. Since it is thought that any fixed financial reporting expenses may be reduced as a percentage of business size, the firm size, which is based on the number of employees, was utilized as a control variable. Results obtained showed that the AC's makeup and expertise contributed to extraordinarily high rates of compliance with the relevant audit laws. Additionally, because the majority of the AC members were chosen from the organizations' boards of directors, they have a large amount of responsibility for guaranteeing the creation of an accurate financial statement. The ACs' compliance with monitoring the internal quality control and risk management systems, however, was found to be low.

Madugba *et al*., (2021) studied the function of AC members in ensuring accurate financial statements among Deposit Money Banks in Nigeria. The number of AC members, frequency of AC meetings, size and independence of the AC, and accounting and financial knowledge of the AC members were utilized as the dependent factors, and the quality of financial reporting as determined using the accrual model was used as the independent variable. The acquired data were analyzed using a number of statistical tests, including regression analysis, multi-collinearity tests, normality tests, and descriptive statistics. Only the number of audit committee meetings held in a given year had a substantial impact on the quality of financial reporting, according to the results. Other variables were shown to have a negligible impact.

Olowookere and Lasisi, (2021) examined the capacities of AC members in carrying out their oversight responsibilities when creating internet financial statements for Nigerian listed financial institutions. The study used a total of 44 financial companies that were listed on the Nigeria Stock Exchange. Secondary data retrieved from the non-financial information section of the firms' annual reports obtained between 2014 and 2018 were used to measure the AC member capabilities, while secondary data retrieved from the investor relations sections of the firm's corporate website were used to measure the internet financial reporting transparency. The collected findings were analyzed using standard linear regressions, and a diagnostic was utilized to determine the accuracy of the statistical inferences. The study's findings demonstrated the effectiveness and proficiency of the AC members. The study's findings show that the audit committee's operation and competence have a substantial impact on the accuracy of internet financial reporting, although the independence and size of the AC have a minimal impact.

Madhurangi and Abeygunasekera (2021), investigated the impact of AC efficacy and audit quality on FRQ in Sri Lanka's banking sector between 2014 and 2018. The study employed secondary data on 30 licensed commercial banks and licensed specialized banks that were gathered from the Colombo Stock Exchange website. According to the findings, the size of the AC, the frequency of meetings, and the level of financial and accounting knowledge had no discernible impact on FRQ. However, audit quality in terms of audit fees does not demonstrate a significant link on the level of financial reporting quality, although audit firm size does.

Ghafran and O'Sullivan (2017) carried out research on the effect of audit committee experience on audit quality of UK audit fees between 2007 and 2010, secondary data from 991 annual reports of FTSE350 non-financial companies were used. After that, the association between the study's dependent and independent variables was determined using two-way Pearson correlations. Their findings showed that non-accounting skills are what make an audit committee effective. They also noticed that a company's difficulties have an impact on the quality of the audit. The authors held the opinion that the audit committee's financial competence should be divided between accountants and non-accountants.

# Gap in Literature

Following the advent of financial scandals in numerous nations throughout the world, attempts were made to explore the audit committee's role in enhancing the quality of financial reporting, according to corporate governance literature. As of now, empirical findings are not conclusive enough to address the audit committee's meeting frequency, representation of women, inclusion of non-executive members, and membership size. The results reported in existing literature have been contradictory as different authors have different views about the effect of audit committee characteristics and internal control components on financial reporting quality. Additionally, case studies from the manufacturing and banking sectors have been evaluated in previous publications, but only few have examined how the audit committee's internal controls affect the accurate financial reporting of listed service organizations in Nigeria. The service sector has been overlooked in both economic theory and applied economic research due to the belief that services are non-productive. The oil industry is a major source of cash for the Nigerian economy as a whole. There is little to no literature that looks at how internal control elements and audit committee characteristics affect financial reporting effectiveness. Past literatures have only treated their effect solely on the effective financial reporting. Thus, this study intends to bridge this gap.

# CHAPTER THREE

# METHODOLOGY

## . Introduction

The research design and methodology are presented in this chapter. The research technique aids in explaining the manner in which the research study was carried out and the manner in which the research challenge was identified. Additionally, it aids in describing the data that were gathered, the procedures that were employed, and the strategy that was chosen for data analysis.

## Research Design

The study used a mixed-methods approach based on the dominant positivistic or quantitative paradigm and utilized quantitative data and samples. The positivist paradigm is focused with testing hypotheses, and the data are extremely precise and particular. The research is conducted in an artificial setting with a high reliability, but validity may be low. While qualitative research is the phenomenological paradigm or post positivism participatory action frameworks. Hussey and Hussey, (2003) stated that; *“The goal of the phenomenological paradigm is to comprehend human behaviour from the perspective of the participant”.*

It emphasizes the importance of internal control systems and audit committees for accurate financial reporting by listed service companies in Nigeria. In other words, it will be built to demonstrate the many techniques and procedures that will be used to gather the crucial data for this research. Questionnaires and annual reports of listed service companies were used to collect enough precise data about the importance of the audit committee and internal control system on successful financial reporting of listed service firms in Nigeria.

## Area of Study

This study focused on the effect of audit committee and internal control on effective financial reporting of listed service firms in Nigeria. The annual reports of service firms listed on Nigerian Stock Exchange from 2010 to 2020 and stakeholders of such firms as respondents of the survey questionnaire statement.

## Population of the Study

Seventy-four (74) listed service companies in Nigeria whose shares are actively traded on the floors of the Nigerian Stock Exchange make up the study's population for the audit committee characteristics (See Appendix I). The population for the internal control components consist of two hundred and fifty 250 survey questionnaire statement.

## Sample Size Determination

The study used multi-stage (purposive, stratified and stratified) sampling technique to select fifty (50) of the seventy-four (74) listed service firms. Members were also purposefully chosen for the surveys based on how well they could analyze and comprehend the study's main issue (see Appendix II). One hundred and eighty nine (189) of two hundred and fifty (250) survey questionnaire statement with full information constitute the size of the internal control components.

## Sampling Techniques

A multi-stage sampling technique which entails both Probability (stratified and stratified) and non-probability (purposive) sampling method was used. The study purposefully select listed service firms. The service firms were stratified into sub sectors and their annual reports with accurate and full information was selected having given all the firms equal chances with the use of stratified method. Members were also purposefully chosen for the surveys based on how well they could analyze and comprehend the study's problem. The stakeholders were taken into account during sampling, and there was equitable representation from independent external auditors. Eleven years have passed between the research periods (2010-2020).

## Sources of Data

The data for this study were collected using both primary and secondary methods of data collections. For the primary data as survey of the independent external auditors and stakeholders’ groups of the listed service companies in the Nigerian Stock exchange conducted through email attachments. The survey questionnaire was designed using Likert Scale system of statements with 1-5 options of Strongly-agree, Agree, No-view, Disagree and Strongly-disagree. For the Secondary Data relating to the audit committee were collected from the annual reports of listed service firms with accurate and full information as required for the study. The primary and secondary data used in this research is available in Appendix III.

## Measurement of Variables

Table 3.1: Measurement of Variables

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| S/N | Variables | Symbol | Measurement | Source |
| 1. | Effective Financial Reporting | EFR | Accruals | Madugba *et al*., (2021) |
| 2. | Audit Committee Size | ACS | Total number of audit committee members in a particular year | Miko and Kamardin, ( 2015) |
| 3. | Audit Committee Meeting | ACM | Total number of meeting held by audit committee members in a year | Othman *et al*., (2014; Bala *et al*., (2020) |
| 4. | Audit Committee  Composition | ACC | Number of non-executive members in the total number of audit committee members | Barua *et al*., (2010). |
| 5. | Audit Committee Female Members | ACFM | Number of female members in the total number of audit committee members | Olowookere, Oyewole and lamidi, (2021). |
| 4. | Control Activities | COTA | Survey Questionnaire Statement 1,6 and12 | Spatacean, (2012) |
| 5. | Risk Assessment | RIASS | Survey Questionnaire Statement 5, 11 and 9 | Hanoon *et al.*, (2020) |
| 6. | Monitoring Activities | MOTA | Survey Questionnaire Statement 2, 7 and 8 | Hanoon *et al.*, (2020) |
| 7. | Information and Communication | INFOC | Survey Questionnaire Statement 3, 4 and 10 | Afiah and Azwari, (2015) |
| 8. | Firm Age | FAGE | The firm year of establishment till date | Qeshta *et al*., (2021) |
| 9. | Firm Size | FSIZE | Log of Total Asset of the firm | Jeroh, (2020) |

## Reliability of Research Instrument

Reliability is the extent to which test results are unaffected by random events—by the luck of the draw. It provides information on the accuracy with which test results measure something (Livingston, 2018). According to the idea of reliability, all significant results must be repeatable. Reliability is the degree to which any measuring tool corrects for random error, and it refers to the degree of confidence that may be placed in the information obtained via the use of an instrument (Haradhan, 2017). The goal of the researcher is to be as impartial, neutral, and objective as possible. The reliability of the data collected through questionnaire was determined using Cronbach’s Alpha. The results obtained as shown in Table 4.5 revealed that the data is reliable at 10.8% which is greater than the benchmark of 6%.

Table 3.2: Reliability Test

|  |  |
| --- | --- |
| Cronbach's Alpha | Number of Items |
| 0.108 | 4 |

Source: Author’s Computation, (2022)

* 1. **Validity of Research Instrument**

Validity refers to how well the information gathered corresponds to the subject of the study. An instrument is valid if it accurately measures the variable it is designed to measure; in other words, if it accurately measures any prescribed variable, it is regarded a valid instrument for that variable. Face validity, criterion validity, content validity, and construct validity are the four types of validity. (Taherdoost, 2016; Ghazali, 2016). Validity indicates if the test scores are measuring the proper items for the test's intended purpose (Drost, 2015). Content validity is the validity test that would be employed in this study because the goal of content validity is to guarantee that a research instrument is appropriate for the topic.

## Data Analytical Method/ Techniques

Primary and secondary data were gathered, and both quantitative and qualitative research techniques were used to analyze the data. To determine the degree to which the independent variables (audit committee and internal control) predicted the dependent variable, the data were analyzed using multiple linear regression analysis (effective financial reporting). Likert Scale system was used as the qualitative analysis approach for the survey questionnaire's primary data.

## Model Specification

The study's model will show how the independent variables (audit committee size, audit committee meetings, audit committee composition, audit committee female member, control environment, information and communication, risk assessment, control activities and monitoring); the dependent variables (financial reporting quality proxy by accruals); and the control variables (firm size and firm age) may be related to one another. The model looks like this for objective 1 and 2:

Objective 1

Y= ƒ (βo + β1X1 +β2 X2 +β3 X3+ β4 X4+ β5 X5 + β6 X6)

FRQit = (ACM, ACS, ACC, ACFM, FSIZE, FAGE)

DACCit = ƒ (βo + β1ACM +β2ACS + β3ACC+ β4ACFM + β5FSIZE + β6FAGE + Ɛ)

Objective 2

Z= ƒ (βo +β1 H1 + β2 H2 + β3 H3 + β4 H4 + Ɛ)

FRQit = (COTEN, RIASS, MOTA, INFOC)

DACCit = ƒ (βo + β7COTA + β8RIASS + β9MOTA + β10INFOC + Ɛ)

Where:

EFR= Financial Reporting Quality

DACC= Accruals

ACS = Audit Committee Size

ACM = Audit Committee Meeting

ACC = Audit Committee Composition

ACFM = Audit Committee Female Member

COTA = Control Activities

RIASS = Risk Assessment

MOTA = Monitoring Activities

INFOC = Information and Communication

FSIZE = Firm Size

FAGE = Firm Age

Ɛ = Error Term associated with the regression model

Β0 = Constant

While Accruals is calculated as thus:

ΔWCit = CFOit – 1 + CFOit + CFOit + 1 + ΔREVit + PPEit + ε

ΔWC = the change in working capital accruals or current accruals from the statement of cash flows.

CFO = the cash flows from operating activities.

ΔREV = change in revenue.

PPE = property, plant and equipment

## Ethical Consideration

Research ethics sets forth the standards of conduct for scientists. It is crucial to abide by ethical standards in order to safeguard the wellbeing, rights, and dignity of study participants. The normative assessment of an individual's or a social group's behaviours and character is referred to as ethics. It entails understanding what is right and wrong, and then doing the right thing — but "doing the right thing" isn't as simple as it appears (Williams, 1985; Krishnamurthy, 2011). Both the respondents and the companies will be assured by the researcher that the study will only be used for academic purposes, which means that their responses will be kept anonymous and only a summary of the data collected will be used. Furthermore, because the exercise was voluntary, respondents had the option of not participating. However, before beginning the exercise, the researcher will obtain permission from the respective firm's management by delivering the university's introduction letter as well as a copy of the questionnaire.

The need to safeguard financial assets and improve financial reporting quality through increasing legal requirements, regulatory policies, and code of conduct should be continuing operations, as any easing of the fight against financial vices can cause significant harm and skew reporting quality. As a result, this is a wakeup call to be proactive in carrying out their tasks as a watchdog. To promote greater openness and transparency in financial management, regulatory agencies around the world are expected to develop global best practices and reforms in internal control processes and mechanisms, as well as develop a code of corporate governance and ensure its compliance as a new layer of financial security and reporting, as is the case in Nigeria. Management is more accountable for creating, formulating, and overseeing internal control systems and structures to mitigate gaps in the current contingency plan because management is solely responsible for designing, implementing, and running a system of internal control to give reasonable assurance that the organization is operating effectively, efficiently, safeguarding its assets, providing reliable financial reports, and complying with all laws and regulations The governing body, such as the Board of Directors, will be zealous in supervising management and ensuring that it is carrying out its internal control responsibilities. All of this was made possible by the increased awareness that this scientific activity has generated, resulting in additions to bodily knowledge.

# CHAPTER FOUR

# DATA PRESENTATION, ANALYSIS AND RESULTS

## . Introduction

This chapter demonstrates the data presentation, analysis, and discussion of the study's conclusions. Data analysis was done with a mixed-methods approach, including quantitative and qualitative techniques. The secondary information were gathered from the yearly reports of listed service firms. The audit committee and internal control components from the annual reports of publicly traded service companies listed on the Nigerian Stock Exchange's trading floors served as the secondary data. The data was analyzed using multiple linear regression analysis to test the research hypotheses for the research difficulties listed in chapter 1 of this research study.

The primary information gathered from the stakeholders was analyzed in the second section of the research study. Using a qualitative research approach, a survey of the firms' stakeholder groups was conducted using survey questionnaire statements sent to 250 of these stakeholder groups, with 189 (76%) respondents responding based on a Likert Scale of 1 to 5, with 5 being strongly in agreement with 1 being strongly disagreeing.

The major paradigms of positivism or the quantitative paradigm, which used quantitative data and samples for this study, were presented using the mixed method approach. The positivist paradigm is concerned with testing hypotheses, and the data is very particular and precise, the research was conducted in an artificial setting, which increased reliability but decreased validity. While the qualitative research are phenomenological or postpositivism participatory action frameworks Hussey and Hussey, (2003:52) stated that; *“The goal of the phenomenological paradigm is to comprehend human behavior from the perspective of the participant”.*

Using the methods described in chapter three of this study, this chapter presents the research data, results, and discussions that are consistent with the study's objectives. Descriptive statistics are discussed first, followed by diagnostic tests to determine the reliability of the procedures, and finally inferential statistics and their interpretations. A discussion of how the survey questionnaire was constructed and distributed for data collection and the data collected is analysed to show the classes that relate to the company’s control activities of internal control matters which is coded using stakeholder theory model of corporate governance.

## **Data Presentation and Analysis**

The annual financial report of 50 listed service firms was obtained from the Nigerian Stock Exchange between 2010 and 2020 (11 years). The descriptive statistics shows the characteristics of the variables in the study.

### 4.2.1. Descriptive Analysis

The descriptive data for the 50 listed service companies used in this study are shown in Table 4.1. It can be seen that COTA has a standard deviation value 0.38, indicating that more respondents agreed that Control Activities have a significant impact on EFR. The mean value of 4.71 is also supported by minimum and maximum value of 3.33 and 5.00 respectively. MOTA's standard deviation value of 0.56 shows that more respondents agreed that monitoring efforts have a significant impact on EFR. The mean value of 4.3616 is also supported by a minimum value of 2.33 and a maximum value of 5.00. ACS has a standard deviation value of 1.00 showing that the size of the audit committee significantly affects EFR. A mean value of 5.41 is supported by a minimum value of 0 and a maximum value of 8. The audit committee meeting has a standard deviation value of 1.10 which indicates that it significantly affects EFR. The mean value of 3.84 is supported by a minimum and maximum value of 0 and 8 respectively.

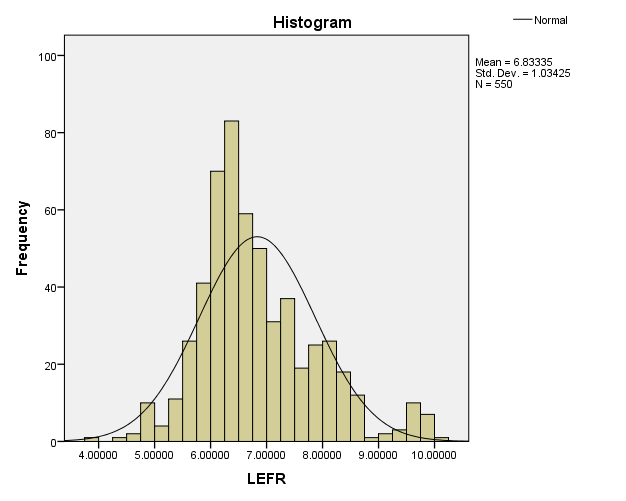
Table 4.1 Descriptive Analysis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | N | Minimum | Maximum | Mean | Std. Deviation |
| COTA | 189 | 3.33 | 5.00 | 4.71 | 0.38 |
| RIAS | 189 | 1.33 | 4.67 | 3.95 | 0.75 |
| MOTA | 189 | 2.00 | 5.00 | 3.94 | 0.56 |
| INFOC | 189 | 2.33 | 5.00 | 4.36 | 0.63 |
| ACS | 550 | 0.00 | 8.00 | 5.41 | 1.00 |
| ACFM | 550 | 0.00 | 3.00 | 0.76 | 0.76 |
| ACC | 550 | 0.00 | 5.00 | 2.74 | 0.53 |
| ACM | 549 | 0.00 | 8.00 | 3.84 | 1.10 |
| FAGE | 550 | 2.00 | 126.00 | 38.00 | 22.20 |
| FSIZE | 550 | 5.32 | 9.88 | 7.48 | 1.00 |
| LEFR | 550 | 3.99 | 10.04 | 6.83 | 1.03 |
| Valid N (listwise) | 188 |  |  |  |  |

Source: Author’s Computation, (2022)

### 4.2.2. Histogram Chart

Figure 4.1 shows the Effective Financial Reporting (EFR) computed from the data used. This is a bell-shaped curve which depicts that the data is fairly regularly distributed.

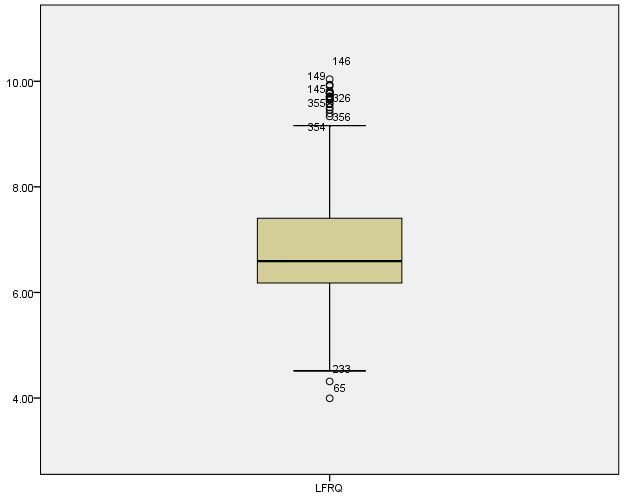


**Figure 4.1:** Histogram Illustrating Effective Financial Reporting

Source: Author’s Computation, (2022)

### 4.2.3. Test for Outliers

This study employed box plot to test for outliers as presented in Figure 4.2 shown below. It reveals that there are outliers but the outliers noticed do not have asterisks. Hence, it cannot undermine the result of the study and it implies that the data is good for further analysis.



**Figure 4.2:** Test for Outliers

Source: Author’s Computation, (2022)

### 4.2.4. Colinearity Test

This study employed the tolerance test and variance inflation factor statistic to test for colinearity of the data variables. Evidence from Table 4.2 revealed that COTA has 0.957 tolerance value, RIAS has 0.897 tolerance value MOTA has a tolerance value of 0.884, INFOC has a tolerance value of 0.908, ACS has a tolerance value of 0.365, ACFM has 0.877 tolerance value ACC has a tolerance value of 0.354, ACM has 0.865 tolerance value, FAGE has a tolerance value of 0.900 while FSIZE has 0.747 tolerance value. Hence, these tolerance values are all greater than the benchmark of 0.1. In addition, the VIF of COTA, RIAS, MOTA, INFOC, ACS, ACFM, ACC, ACM, FAGE were FSIZE were noticed, and the values are all below the benchmark of 10 which makes it all to be acceptable because it shows that there is no multicolinearity.

Table 4.2: Colinearity

|  |  |  |
| --- | --- | --- |
| Model | Colinearity Statistics | |
| Tolerance | VIF |
| COTA | 0.957 | 1.045 |
| RIAS | 0.897 | 1.114 |
| MOTA | 0.884 | 1.131 |
| INFOC | 0.908 | 1.101 |
| ACS | 0.365 | 2.741 |
| ACFM | 0.877 | 1.140 |
| ACC | 0.354 | 2.827 |
| ACM | 0.865 | 1.156 |
| FAGE | 0.900 | 1.111 |
| FSIZE | 0.747 | 1.339 |

Source: Author’s Computation, (2022)

## Analysis of Data from the Survey Questionnaires

The primary data used in this study was gathered from the stakeholders of the companies under study through surveys, questionnaires, and annual reports of listed service firms traded publicly on the floors of the Nigerian Stock Exchange. It includes research information, findings, and analysis that are consistent with the study's goals. Survey of Independent auditors and stakeholders of listed service firms in Nigeria

### Coded Survey Questionnaire Statement

Survey data collected from the Stakeholder groups of the company understudy is coded as provided in Table 4.3:

Table 4.3: Coded Survey Questionnaire Statement

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENTS** | **SA** | **A** | **NV** | **D** | **SD** | **NO.** |
| 1 | 150 | 34 | 2 | 0 | 3 | 189 |
| 2 | 83 | 95 | 0 | 6 | 5 | 189 |
| 3 | 103 | 59 | 5 | 10 | 12 | 189 |
| 4 | 124 | 44 | 3 | 21 | 0 | 189 |
| 5 | 0 | 0 | 9 | 105 | 75 | 189 |
| 6 | 119 | 60 | 0 | 7 | 3 | 189 |
| 7 | 20 | 131 | 6 | 23 | 9 | 189 |
| 8 | 26 | 141 | 0 | 10 | 12 | 189 |
| 9 | 107 | 75 | 2 | 5 | 0 | 189 |
| 10 | 145 | 19 | 0 | 15 | 10 | 189 |
| 11 | 154 | 13 | 5 | 10 | 7 | 189 |
| 12 | 128 | 61 | 0 | 0 | 0 | 189 |

Key: Strongly Agree (SA), Agree (A), No View (NV), Disagree (D), Strongly Disagree (SD) Source: Author’s Computation, (2022)

### Analysis of Survey Questionnaire Statement

The summary of survey data obtained from the stakeholder groups of the companies is provided in Table 4.4:

Table 4.4: Analysis of Survey Questionnaire Statement

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT** | **SA** | **A** | **NV** | **D** | **SD** | **%** |
| 1 | 79% | 18% | 1% | 0% | 2% | 100% |
| 2 | 44% | 50% | 0% | 3% | 3% | 100% |
| 3 | 54% | 31% | 3% | 5% | 7% | 100% |
| 4 | 66% | 23% | 2% | 11% | 0% | 100% |
| 5 | 0% | 0% | 5% | 55% | 40% | 100% |
| 6 | 63% | 32% | 0% | 4% | 1% | 100% |
| 7 | 11% | 69% | 3% | 12% | 5% | 100% |
| 8 | 14% | 75% | 0% | 5% | 6% | 100% |
| 9 | 57% | 40% | 1% | 2% | 0% | 100% |
| 10 | 77% | 10% | 0% | 8% | 5% | 100% |
| 11 | 81% | 7% | 3% | 5% | 4% | 100% |
| 12 | 89% | 11% | 0% | 0% | 0% | 100% |

Key: Strongly Agree (SA), Agree (A), No View (NV), Disagree (D), Strongly Disagree (SD)

Source: Author’s Computation, (2022)

A total number of 250 survey questionnaires were sent as email attachment to the independent auditors and stakeholders of listed service firms in Nigeria and 189 (76%) respondents returned the completely answered questionnaires. The responses received were analyzed based on Likert Scale of 1 to 5. Each likert items were then transformed into Figures 4.3 to 4.14. The pie charts highlight the views of both the independent auditors and other stakeholders who fully completed the statements of the survey questionnaires.

Likert Item 1: There is an effective flow of authority in the company’s Internal Control system. Table 4.5 and Figure 4.3 revealed that 79% of the respondents strongly agreed that “there is an effective flow of authority in the company’s internal control system” while 18% agreed with the statement. 1% of the respondents had no view while 2% strongly disagreed. Most of the respondents (79%, 18%) attest that there is an effective flow of authority in the companies which implies that the control activities of the internal control system are very effective. In other words, the remaining 3% of the respondent who had no view or did not agree that the control activities are effective should however be ignored because the percentage of those with no view is not weighty enough to have impact on the statement.

Table 4.5: Respondents’ Responses to Likert Item 1

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT** | **SA** | **A** | **NV** | **D** | **SD** | **%** |
| 1 | 79% | 18% | 1% | 0% | 2% | 100% |

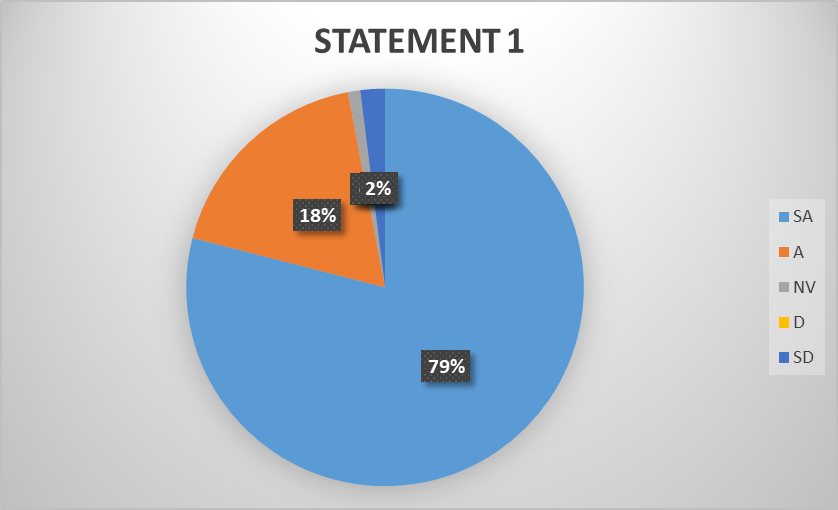


Figure 4.3: Respondents’ Responses to Likert Item 1

Source: Author’s Computation, (2022)

Likert Item 2: An effective Internal Control promotes quality in financial report for service firms. Table 4.6 and Figure 4.4 show the respondents’ responses to likert item 2. The chart shows that 44% of the respondents strongly agreed that “effective internal control promote effectiveness in the financial reports of the service firms”, 50% of them agreed with the statement, 3% of disagreed while 3% strongly disagreed. However, most of the respondents (50%, 44%) attest that an effective internal control system enhances the financial report quality of the service companies which implies that the financial report will be more effective for informed decision making of its users when there is an effective internal control is in place in service firms. In other words, the remaining 6% of the respondent who had no view or did not agree should however be ignored because their opinion has no effect on the statement as the percentage those disagreeing and strongly disagreeing is too small.

Table 4.6: Respondents’ Responses to Likert Item 2

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT** | **SA** | **A** | **NV** | **D** | **SD** | **%** |
| 2 | 44% | 50% | 0% | 3% | 3% | 100% |

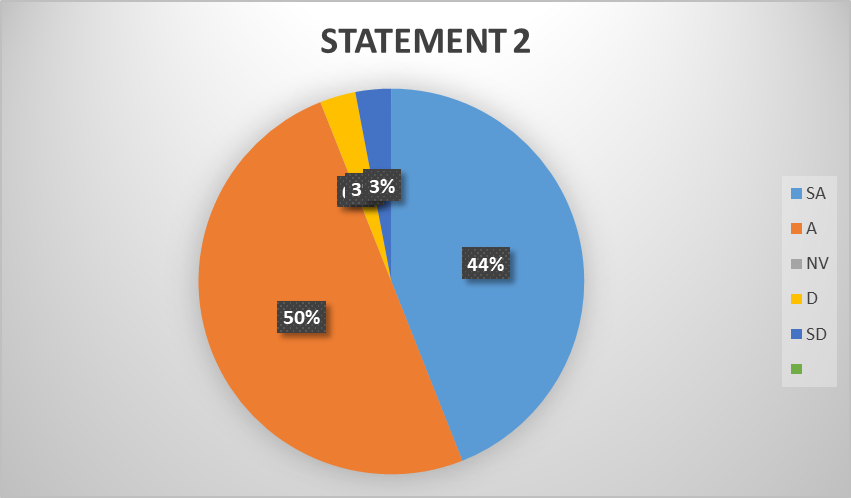


Figure 4.4: Respondents’ Responses to Likert Item 2

Source: Author’s Computation, (2022)

Likert Item 3: Audit Committee support effective internal control system in service firms.

Table 4.7 and Figure 4.5 show the respondents’ responses to statement 3 of the survey questionnaire where 54% of the respondents strongly agreed that “effective internal control promote quality in the financial reports of the service firms”, 31% agreed with the statement, 3% of them had no view, 7% disagreed while 5% strongly disagreed. Many of the respondents (54%, 31%) attest that audit committee support effective internal control in the service companies. This implies that the audit committee of service firms contribute to the effectiveness of the internal control that is in place in those firms and this will help to boost the quality of their financial report. However, the remaining 15% of the respondent who had no view or did not agree should however not be overlooked because the percentage is not weighty enough to have impact on the statement.

Table 4.7: Respondents’ Responses to Likert Item 3

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT** | **SA** | **A** | **NV** | **D** | **SD** | **%** |
| 3 | 54% | 31% | 3% | 7% | 5% | 100% |

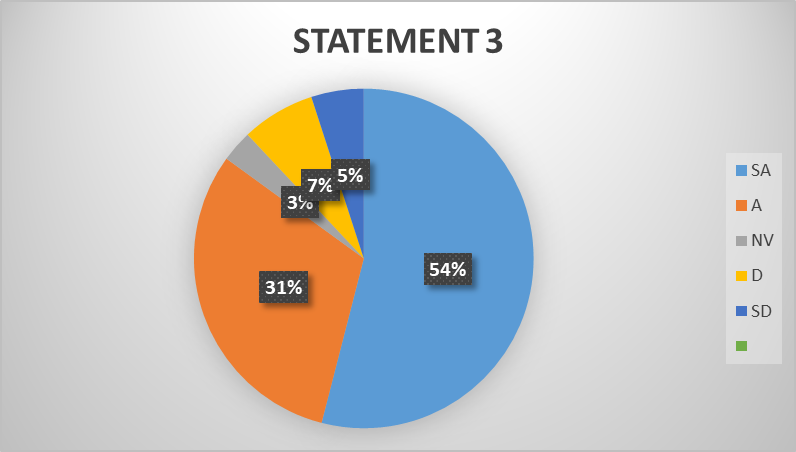


Figure 4.5: Respondents’ Responses to Likert Item 3

Source: Author’s Computation, (2022)

Likert item 4: Good corporate governance system leads to quality financial report.

Table 4.8 and Figure 4.6 show the respondents responses to statement 4 of the survey questionnaire. 66% of the respondents strongly agreed that good corporate governance leads to effectiveness in the financial reports of the service firms, 23% agreed with the statement, 2% had no view while 9% disagreed. Many of the respondents (66%, 23%) attest that good corporate governance system leads to quality financial report in the service companies. This implies that good corporate governance system contributes to the effectiveness of service firm financial report thereby boosting the confidence of investors. However, the remaining 11% of the respondent who had no view or did not agree should however not be overlooked because the percentage of those with no view is not weighty enough to have impact on the statement.

Table 4.8: Respondents Responses to Likert Item 4

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT** | **SA** | **A** | **NV** | **D** | **SD** | **%** |
| 4 | 66% | 23% | 2% | 9% | 0% | 100% |

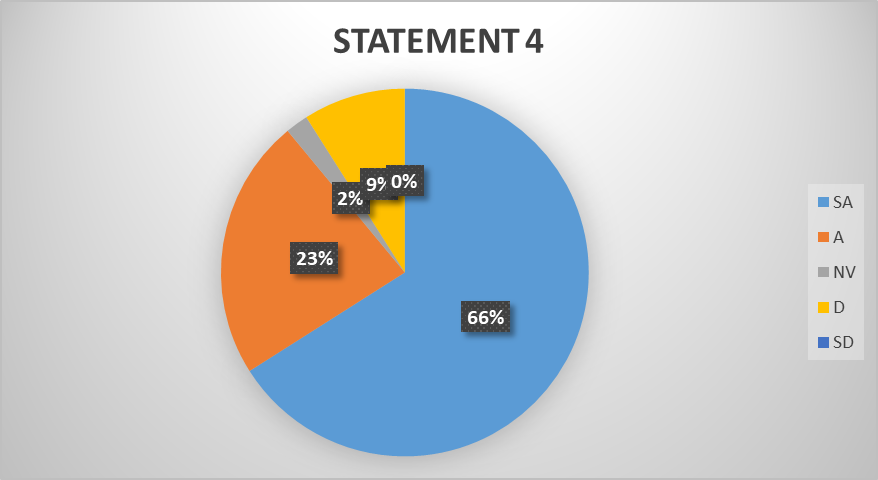


Figure 4.6: Respondents’ Responses to Likert Item 4

Source: Author’s Computation, (2022).

Likert item 5: Good corporate governance system leads to quality financial report.

Table 4.9 and Figure 4.7 show the respondents’ responses to statement 5 of the survey questionnaire where 55% of the respondents strongly disagreed that “effective internal control promotes quality in the financial reports of the service firms”, 40% disagreed with the statement while 5% had no view. Most of the respondents (55%, 40%) attest that audit committee does not help in reducing both financial and business risk because of lack of effective internal control in the service companies. This implies that the quality assurance department helps in reducing both financial and business risk implying an effective internal control. However, the remaining 5% of the respondent who had no view or did not agree should however be ignored because the percentage of those with no view is not weighty enough to have impact on the statement.

Table 4.9: Respondents’ Responses to Likert Item 5

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT** | **SA** | **A** | **NV** | **D** | **SD** | **%** |
| 5 | 0% | 0% | 5% | 55% | 40% | 100% |

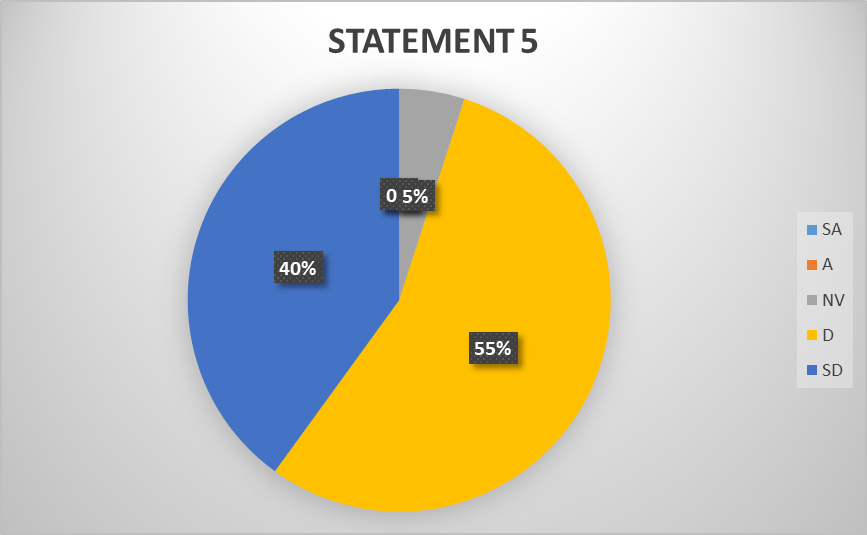


Figure 4.7: Respondents’ Responses to Likert Item 5

Source: Author’s Computation, (2022).

Likert Item 6: Audit Committee helps in reducing both financial and business risk because of lack of effective internal control. According to the survey's statement 6, which is depicted in Figure 4.8, "There are frameworks within which the company performs its various activities and conducts its business affairs," was agreed upon by 63% of the respondents, 32% of whom also strongly agreed, 4% of whom disagreed, and 1% of whom strongly disagreed. Many of the respondents (63%, 32%) attest that there are frameworks within which the company perform its various activities and conduct business affairs in the service companies. This implies that the control activity of the internal control system that is in place in the service firms is well defined. However, the remaining 5% of the respondent who did not agree should however be overlooked because the percentage is not weighty enough to have impact on the statement.

Table 4.10: Respondents’ Responses to Likert Item 6

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT** | **SA** | **A** | **NV** | **D** | **SD** | **%** |
| 6 | 63% | 32% | 0% | 4% | 1% | 100% |

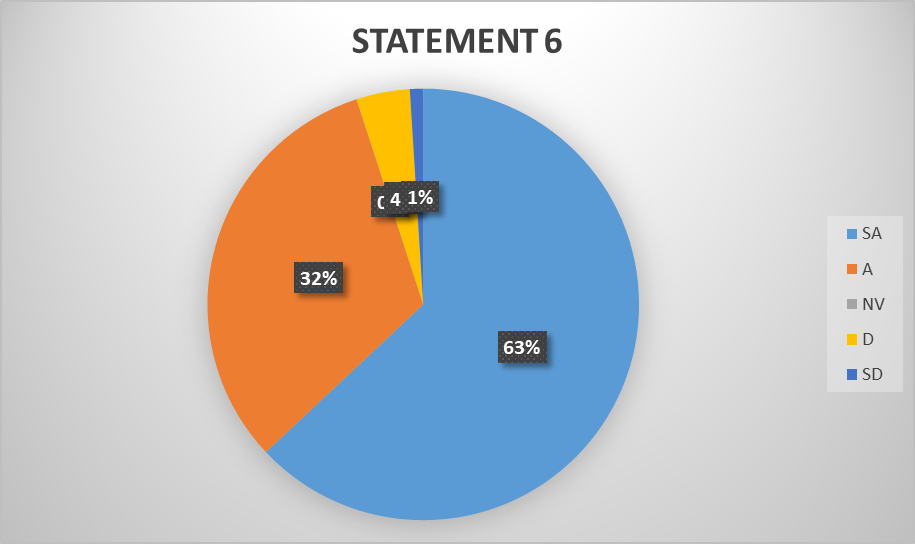


Figure 4.8: Respondents’ Responses to Likert Item 6

Source: Author’s Computation, (2022)

Likert Item 7: There are frameworks within which the company perform its various activities and conduct its business affairs. Table 4.11 and Figure 4.9 show the statement 7 of the survey questionnaire where 11% of the respondents strongly agreed that “the top management of the company are in charge of monitoring all controls”, 69% agreed with the statement, 3% had no view, 12% disagreed while 5% strongly disagreed. Many of the respondents (69%, 11%) attest that the top management oversee monitoring all controls in the service companies. This implies that the monitoring activities are majorly done by the top management of the firms. However, the remaining 20% of the respondent who had no view or did not agree implies that the top management shares their delegate part of the monitoring activities to the low-level management of the firms.

Table 4.11: Respondents’ Responses to Likert Item 7

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT** | **SA** | **A** | **NV** | **D** | **SD** | **%** |
| 7 | 11% | 69% | 3% | 12% | 5% | 100% |

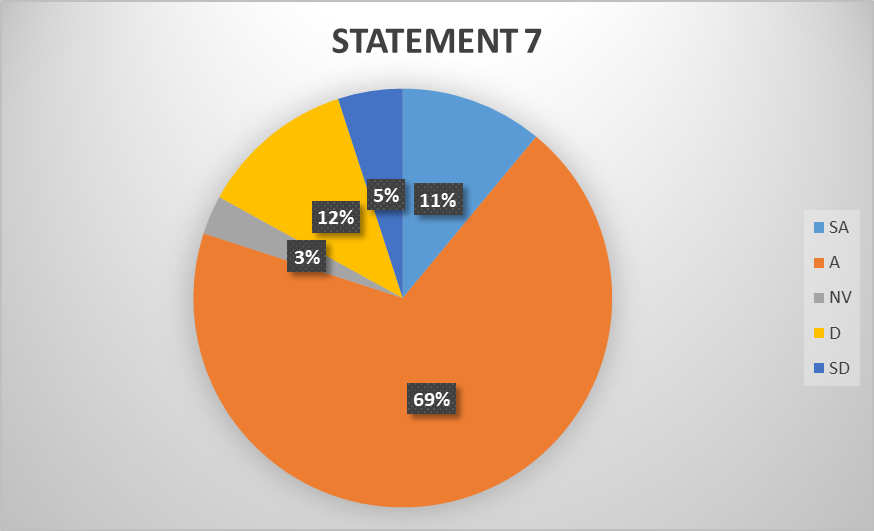


Figure 4.9: Respondents’ Responses to Likert Item 7

Source: Author’s Computation, (2022)

Likert Item 8: The top management of the company oversee monitoring all controls.

Table 4.12 and Figure 4.10 show the respondents’ responses to statement 8 of the survey questionnaire where 14% of the respondents strongly agreed that “the quality assurance or internal control department of the company monitors all controls frequently in the service firms”, 75% of them agreed with the statement, 5% disagreed while 6% strongly disagreed. Most of the respondents (75%, 14%) attest that the quality assurance or internal control department of the company monitors all controls frequently in the service companies. This implies that the internal control departments are up and doing their monitoring activities. However, the remaining 11% of the respondent who did not agree should however not be overlooked that is, there should be more emphasis on the monitoring activities of the internal control or quality assurance department of the service firms.

Table 4.12: Respondents Responses to Likert Item 8

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT** | **SA** | **A** | **NV** | **D** | **SD** | **100%** |
| 8 | 14% | 75% | 0% | 5% | 6% | 189 |

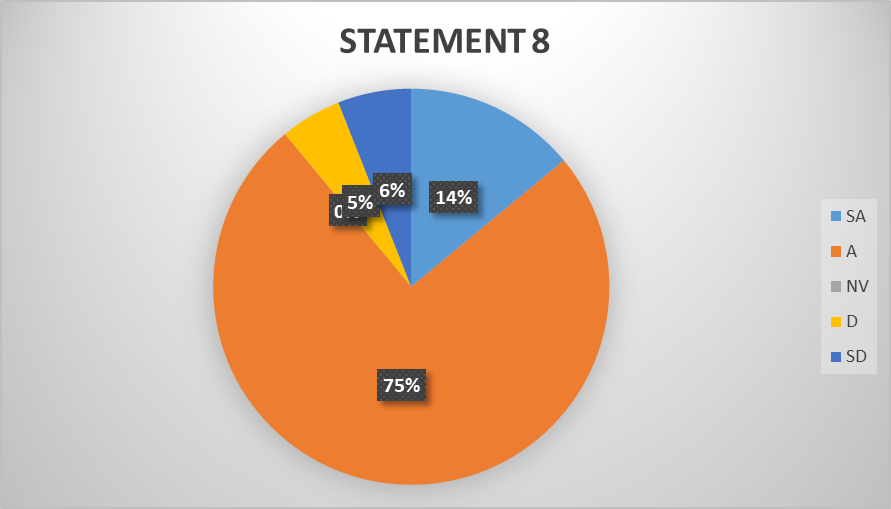


Figure 4.10: Respondents’ Responses to Likert Item 8

Source: Author’s Computation, (2022)

Likert Item 9: Audit Committee must have access to both Internal and External Auditors for internal control effectiveness. Table 4.13 and Figure 4.11 show the statement 9 of the survey questionnaire where 57% of the respondents strongly agreed that “audit committee must have access to both internal and external Auditors for internal control effectiveness of the service firms”, 40% of them agreed with the statement, 1% of them had no view while 2% disagreed. Most of the respondents (57%, 40%) attest that audit committee must have access to both the internal and external auditors for effective internal control in the service companies. This implies that the access of audit committee members to both the external and internal auditors will boost the effectiveness internal control system of the service firms. However, the remaining 15% of the respondent who had no view or did not support the access of audit committee members to both the internal and external auditors should however not be overlooked.

Table 4.13: Respondents’ Responses to Likert Item 9

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT** | **SA** | **A** | **NV** | **D** | **SD** | **%** |
| 9 | 57% | 40% | 1% | 2% | 0% | 100% |

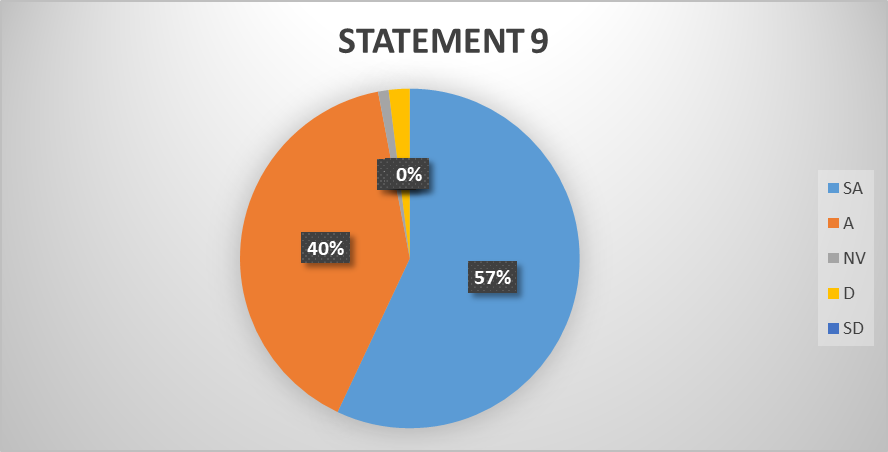


Figure 4.11: Respondents’ Responses to Likert Item 9

Source: Author’s Computation, (2022)

Likert Item 10: quality financial reporting system contributes to corporate performance in the service sector. Table 4.14 and Figure 4.12 show the statement 10 of the survey questionnaire where 77% of the respondents strongly agreed that “a quality financial reporting system contribute corporate performance in the service sector”, 10% of them agreed with the statement, 8% disagreed while 5% strongly disagreed. Most of the respondents (77%, 10%) attest that a quality financial reporting system contributes corporate performance in the service sector. However, the remaining 13% of the respondent who had no view or did not agree should however not be overlooked.

Table 4.14: Respondents’ Responses to Likert Item 10

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT** | **SA** | **A** | **NV** | **D** | **SD** | **%** |
| 10 | 77% | 10% | 0% | 8% | 5% | 100% |

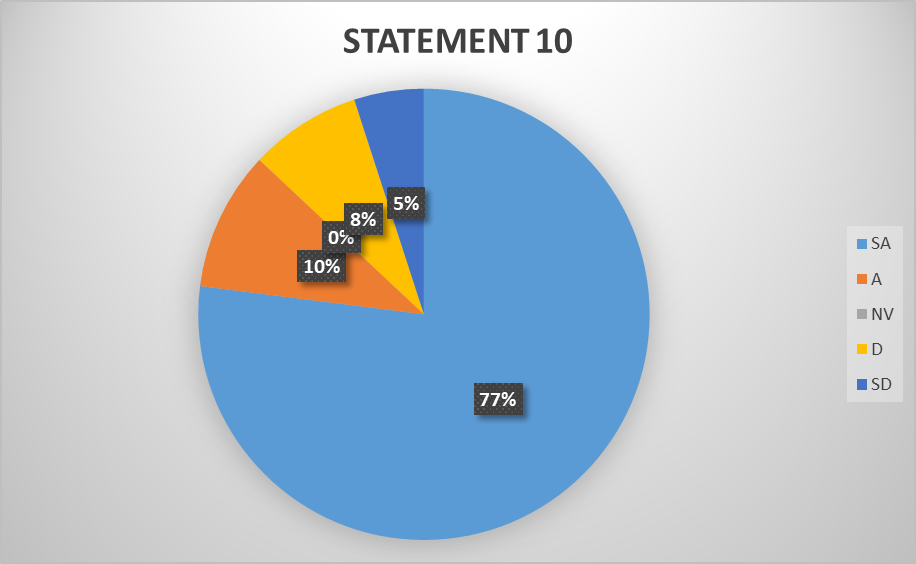


Figure 4.12: Respondents’ Responses to Likert Item 10

Source: Author’s Computation, (2022)

Likert Item 11: Audit Committee must be independent of the executive directors for effective internal control. According to statement 3 of the survey, "Audit committee must be independent of the executive directors for effective internal control in the service firms," 81% of the respondents strongly agreed with the statement, 7% agreed, 3% had no opinion, 5% disagreed while 4% strongly disagreed. For effective internal control in service organizations, the majority of respondents (81%, 7%) certify that the audit committee must be independent of the executive directors. However, it's important not to ignore the remaining 13% of respondents who either had no opinion or disagreed.

Table 4.15: Respondents’ Responses to Likert Item 11

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT** | **SA** | **A** | **NV** | **D** | **SD** | **%** |
| 11 | 81% | 7% | 3% | 5% | 4% | 100% |

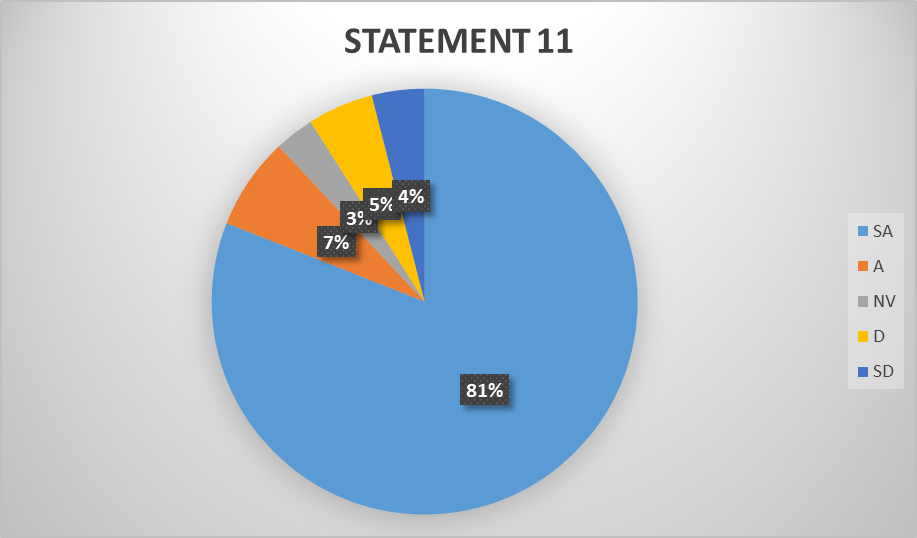


Figure 4.13: Respondents’ Responses to Likert Item 11

Source: Author’s Computation, (2022)

Likert Item 12: All employees must understand how their activities affect the company’s internal control. According to the survey's statement 12, which is depicted in Figure 4.14, 89% of the respondents strongly agreed that "all employees must understand how their actions affect the company's internal control of the service firms," while just 11% disagreed. All respondents (89%, 11%) affirm that every employee needs to be aware of how their actions affect the company's internal control of service firms.

Table 4.16: Respondents’ Responses to Likert Item 12

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT** | **SA** | **A** | **NV** | **D** | **SD** | **%** |
| 12 | 89% | 11% | 0% | 0% | 0% | 100% |

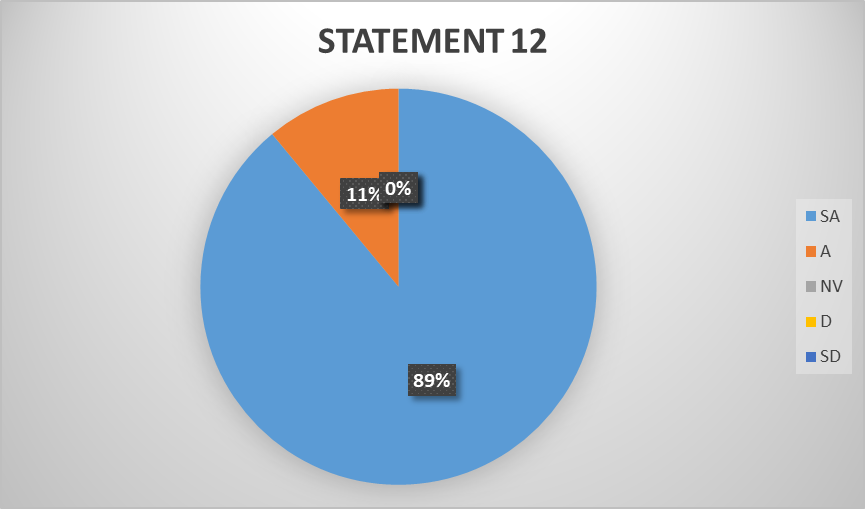


Figure 4.14: Respondents’ Responses to Likert Item 12

Source: Author’s Computation, (2022)

## Model Summary

Table 4.17 provides evidence that the modified coefficient of multiple determination of 0.444 indicates that changes in the predictor variables (ACS, ACFM, ACC, ACM, FAGE and FSIZE) account for around 45 percent of the overall variance observed in the predicted variable (EFR). The F-ratio of 22.241 is significant with 0.000 probability, indicating that the model specification is suitable. The study's predictor variable, which in this case is audit committee characteristics of listed service firms in Nigeria, was found to be a major influencer of the predicted variable.

Table 4.17: Model Summary I

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficient B | Standardized Coefficient Beta | t | Sig |
| Constant | 3.555 | - | 11.449 | 0.000 |
| ACS | -0.066\*\* | 0.086 | 1.953 | 0.051 |
| ACFM | 0.050\*\* | 0.099 | 2.017 | 0.044 |
| ACC | -0.024 | -0.039 | -0.778 | 0.437 |
| ACM | -0.001 | -0.015 | -0.375 | 0.708 |
| FAGE | -0.005 | -0.108 | -2.731 | 0.007 |
| FSIZE | 0.409 | 0.399 | 9.895 | 0.000 |
| R | 0.444 |  |  |  |
| R2 | 0.197 |  |  |  |
| Adjusted R2 | 0.188 |  |  |  |
| F-ratio | 22.241 |  |  |  |
| Prob. (F-statistic) | 0.000 |  |  |  |
|  |  |  |  |  |

*Standard errors \*\*\*p<0.01, \*\*p<0.05, \*p<0.1.*

*Source:* Author’s Computation, (2022)

Table 4.18 provides evidence that the modified coefficient of multiple determination of 0.298 indicates that changes in the predictor variables (COTA, RIAS, MOTA and INFOC) account for around 30 percent of the overall variance observed in the predicted variable (EFR). The F-ratio of 7.461 is significant with 0.000 probability, indicating that the model specification is suitable. The study's predictor variable, which in this case is effective financial reporting by listed service firms in Nigeria, was found to be a major influencer of the predicted variable.

Table 4.18: Model Summary 2

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficient B | Standardized Coefficient Beta | t | Sig |
| Constant | 9.402 | - | 8.907 | 0.000 |
| COTA | -0.488\*\* | -0.167 | -2.368 | 0.019 |
| RIAS | 0.185\*\* | 0.162 | 2.296 | 0.023 |
| MOTA | -0.223\*\* | -0.184 | -2.600 | 0.010 |
| INFOC | 0.008 | 0.009 | 0.124 | 0.901 |
| R | 0.298 |  |  |  |
| R2 | 0.089 |  |  |  |
| Adjusted R2 | 0.069 |  |  |  |
| Durbin Watson | 0.719 |  |  |  |
| F-ratio | 4.469 |  |  |  |
| Prob. (F-statistic) | 0.002 |  |  |  |
|  |  |  |  |  |

*Standard errors \*\*\*p<0.01, \*\*p<0.05, \*p<0.1.*

*Source:* Author’s Computation, (2022)

## Discussion of Results from the Annual Reports

ACS in LEFR has a regression co-efficient value of 0.066. This indicates that ACS exercises about 7% influence on the tested variable (LEFR). Additionally, the variable is significant at 5%, suggesting that the variable ACS has a significant and favourable link with the quality financial reporting of listed service firms in Nigeria. The audit committee will become one unit larger, which will result in 7% increase in the EFR. This finding differs from that of Hasan *et al*. (2020), who discovered a negligible correlation between ACS and the calibre of financial reporting by listed trading firms on Bursa Malaysia between 2013 and 2018.

ACFM has a regression co-efficient value of 0.050 which implies that ACFM exercises 5% influence on the tested variable (LEFR) at 5% level of significance. The variable shows a favourable and substantial correlation with the Nigerian listed service companies' quality financial reporting. If there were one more female member of the audit committee, there would be a 50% rise in the EFR.

The regression co-efficient for FAGE is -0.005, meaning that it is significant at 5% and exerts an influence of roughly 1% on the tested variable (LEFR). The variable shows an unfavorable but substantial correlation with the Nigerian listed service companies' quality financial reporting. A unit increase in the age of the firms would leads to about 1% decrease in the EFR.

The regression co-efficient for FSIZE is 0.409, meaning that it exerts an influence of roughly 41%5 at a significance level of 1% on the tested variable (LEFR). The variable shows a favorable and substantial correlation with the Nigerian listed service companies' quality financial reporting. A unit increase in the size of the firms would leads to 0.409 increase in the EFR.

### **Discussion of the Results of Survey Questionnaire Analysis**

The statistical evidence from Table 4.18 shows that the COTA has a regression co-efficient value of -0.488 which implies that COTA exercises about 49 influence on the tested variable (LEFR) at 5% level of significance. The link between the variable and quality financial reporting of Nigerian listed service companies is negative yet significant. A unit increase in the control activities of the internal control would lead to a decrease in the EFR by 49%. This finding is consistent with that made by Owolabi and Amosun (2020), who discovered that control actions had a statistically significant favourable impact on the accuracy of the financial reporting of the Nigerian insurance sector.

MOTA has a regression co-efficient value of -0.223 which implies that MOTA exercises 22% influence on the tested variable (LEFR) with the significant at 5% level of significance. The factor is negatively but significantly related to the quality of financial reporting of Nigerian listed service companies. A unit increase in the monitoring activities of the internal control would lead to a decrease in the EFR by 22%.

RIAS in LEFR has a regression co-efficient value of 0.185. This indicates that ACS exercises about 19% influence on the tested variable (LEFR). Additionally, the variable is significant at 5%, revealing that the variable RIAS has a significant and favourable link with the quality financial reporting of listed service firms in Nigeria. When risk assessment becomes one unit larger, it will result in a 19% increase in the EFR.

According to the main data survey questionnaire analysis results displayed in Figures 4.5 to 4.16, an efficient internal control system is essential to improving the company's financial performances. The findings of the firms' understudied stakeholders' groups indicate that the Audit Committee is crucial to the internal control of the enterprises. This is in line with the corporate governance regulation.

Some of the benefits of the audit committee supports to internal control are as follows:

1. There is an effective flow of authority in the company’s internal control system.
2. An effective internal control promotes effectiveness in financial report for service firms.
3. Audit committee support effective internal control system in service firms.
4. Good corporate governance system leads to effective financial report.
5. Audit committee helps in reducing both financial and business risk because of lack of effective internal control.
6. There are frameworks within which the company perform its various activities and conduct its business affairs.
7. The top management of the company oversee monitoring all controls.
8. The quality assurance or internal control department of the company monitors all controls frequently.
9. Audit committee must have access to both Internal and External Auditors for internal control effectiveness.
10. Effective financial reporting system contribute corporate performance in the service sector.
11. Audit committee must be independent of the executive directors for effective internal control.
12. All employees must understand how their activities affect the company’s internal control.

### Hypotheses Testing and Decisions

An overview of the hypothesis tested is provided in Table 4.6.

Table 4.19 Hypothesis Testing and Decisions

|  |  |  |
| --- | --- | --- |
|  | Null Hypotheses | Decision |
| Hypothesis one | H**01**: Audit committee characteristics and financial reporting of listed service firms in Nigeria is not significant | Rejected |
| Hypothesis two | H**02**: Internal control components on financial reporting of listed service firms in Nigeria is not significant. | Rejected |

# CHAPTER FIVE

# SUMMARY, CONCLUSION, AND RECOMMENDATIONS

## Introduction

This chapter provides information on the research carried out, it is organized into; summary of work done, summary of findings, conclusion, recommendation, contribution to knowledge, limitations to the study and suggestions for further studies

## Summary of the Study

The goal of this study was to examine the impact of internal control and the audit committee on the accurate financial reporting of listed service companies in Nigeria. It offers in-depth details on the composition of the audit committee, internal controls, the effectiveness of financial reporting, and a review of relevant academic research on the topic. In the first chapter of this study, it also discussed the context of the report, the statement of the research problem, the research objectives, the research theory, the nature of the analysis, the purpose of the study, and the relevance of the study. To address the research topics in chapter one, this study used both quantitative and qualitative data. It adapted five variables; audit committee size, audit committee meeting, control environment, risk assessment and monitoring activities to analyze financial reporting effectiveness. Audit committee characteristics was proxy ACS, ACFM, ACC and ACM, internal control was proxy by COTA, RIAS, MOTA and INFOC while accruals was used as a proxy for effective financial reporting. The primary data employed in this study was in form of questionnaire which contained several twelve statements from 189 independent auditors and other stakeholders of the firms while the secondary data were extracted from 50 annual reports of service firms that are publicly traded on the floor of Nigerian Stock Exchange between 2010 and 2020 (11 years).

The preliminary analysis by using the descriptive statistics to explain the variables in the study, multiple linear regression analysis was also employed for the analysis of the same variables, and this was followed by discussion of the tests carried out on the data. In addition to this, this study provides the summary, conclusion, and recommendation.

## Summary of Findings

This part presents the discoveries of the researcher on both the theoretical and empirical findings.

### Theoretical Findings

A theoretical viewpoint has been deduced from different literatures with an emphasis on Shareholdership model and Stakeholdership model on relevance of audit committee and internal control on effective financial reporting.

* + - 1. **Shareholdership Model**

According Nwanji and Howell, (2007) to Shareholdership model *“Profit maximization is the foundation of the conventional Anglo-American model of corporate governance, which states that it serves to safeguard the interests of shareholders. The idea of profit maximization is a product of the free market economy. The pricing system controls this. The general economic well-being of society is maximized by individual entrepreneurs' efforts to maximize their profits”.*

The study was guided by the agency theory which is in line with (Jerubet *et al*., 2017) which is defined as a relationship between the principal and the agent. The principal increases monitoring expenditures, including board restructuring by hiring new directors, hiring financial experts for the AC, and promoting gender diversity, to monitor the agent, where high expenditures lower firm value, according to agency theory, which further elaborates on the assumption that each party is acting in their own interests (Zalata *et al*., 2018) Managers are urged to create financial statements that unequivocally demonstrate the quantity of revenues a firm receives over a given time period in order to ensure the efficacy of an audit committee. Making sure the audit committees carry out their duties enables the business to establish correct financial records and statements in order to provide highly effective financial reports.

* + - 1. **Stakeholdership Model**

Nwanji and Howell (2005) stated that *“Since 2000, the majority of multinational corporations in the UK and the US have shut down their call centers and other service operations and relocated the jobs to India and other Asian nations, resulting in the creation of global stakeholder groups, including the local residents and workers in those nations. What transpired, though, to the stakeholder groups whose members lost their jobs in industrialized nations? According to HSBC Bank, the nations in which it conducts business have local and international interests.”*

Therefore, risk assessment is paramount in identifying and mitigating both internal and external hostile. In general, the debate over corporate governance centers on the relative merits of shareholder and stakeholder perspectives for running a business (GCGC, 2016). The first responsibility of the board of directors is the monitoring role, which enables the board to address issues with corporate governance. Due to boards' failure, external control mechanisms, such as hostile takeovers, have increased (Madugba *et al*., 2021).

### Empirical Findings

This study analytically studied the relationship between the audit committee and internal control of listed service firms using ACS, ACFM, ACC, ACM, COTA, RIAS, MOTA and INFOC as metrics and effective financial reporting using accruals as it metric. For this reason, the empirical findings of this study are as follows:

1. According to the analysis conducted in chapter four of this study, the size of the audit committee is positively and significantly related to the quality of the financial reporting of listed service companies in Nigeria. This suggests that the audit committee size should consist of atleast six members, as doing so will reduce the efficacy of the financial reporting of listed service companies.
2. Secondly, this study finds that more female members of the audit committee are necessary for a successful financial report, according to the findings. This is consistent with the finding that ACFM significantly influenced the financial reporting quality of publicly traded consumer products businesses in Nigeria between 2009 and 2019 (Olowookere *et al*., 2021)
3. The third finding in this study shows that a significant but unfavorable association exist between the firm age and a successful financial report. The quality of the financial report would decrease when the age of the firm goes up. This finding is in line with that of (Kharashgah *et al*., 2019), who discovered a weak but substantial correlation between actual earnings management of service and industrial enterprises and company size.
4. The fourth finding in this study shows that a significant and favorable association exist between the firm size and a successful financial report. The quality of the financial report would increase when the size of the firm goes up. This finding concur with the finding of (Efobi and Okougbo, 2014), who discovered a favorable and significant correlation between the age of the firm and the promptness of financial reporting by listed financial institutions in Nigeria between 2005 and 2008.
5. The study's fifth finding is that there is a negative but significant association between successful financial reporting and control activities; as a result, more investment in control activities will result in less effective financial reporting. The findings of (Ejoh and Ejom, 2014) indicate there is no significant correlation between internal control activities and the financial performance of tertiary institutions (Cross River State College of Education, Akamkpa) in Nigeria for the year 2013 are in conflict with this.
6. The study's findings indicate is that there is a positive and significant correlation between quality financial reporting and risk assessment; as a result, increasing the investment in risk assessment will result in more quality in financial reporting. This finding is in line with that of Ahmed and Muhammad (2020), who discovered a correlation between financial performance of telecommunication businesses in the Kurdistan Region of Iraq in 2018 and risk assessment of internal control.
7. This study also finds a substantial but unfavourable correlation between monitoring activities, and quality financial reporting of a subset of Nigerian listed service companies. This supports the finding that there is a considerable positive association between internal control and financial success (Hanoon *et al*., 2020).

## Conclusion

In this study, the impact of internal controls and audit committees on listed service companies in Nigeria was empirically investigated. The study demonstrates a substantial relationship between the explanatory variables ACS, ACFM, COTA, RIAS and MOTA and the explained variable accruals, which is a stand-in for efficient financial reporting. The study comes to the conclusion that key determinants of efficient financial reporting in listed service organizations in Nigeria are audit committee size, female members, control activities, risk assessment and monitoring activities. This shows that increasing the number of audit committee female members, size, firm age, firm size and risk assessment will increase the efficacy of financial reporting, however increasing control and monitoring activities will result in a drop in the quality of financial reporting.

## Recommendations

This study’s recommendations are as follows:

1. Audit committee size should be atleast minimum of six(6)memers The size of the AC should not be packed in order to avoid talking about other topics.
2. This study suggests that there should be at least three female members among the audit committee size of six (three male and three female). Management should give the female appropriate consideration in the audit committee membership because the result of this study shows that more of them in the size will result into a quality financial reporting.
3. There should be timely report of internal control issues to achieve highest level of financial reporting effectiveness because risk assessment is paramount in identifying and mitigating both internal and external hostile.
4. The control and monitoring activities of the quality assurance or internal control department should be done more frequently so as to be able to identify any form of risk as they occur and flag the variations identified for provision of possible solutions to overcome it.

## Contributions to Knowledge

Based on the findings of this study, contributions are made to empirical studies of internal control, quality financial reporting, and audit committee characteristics. It contributes by revealing that ACS, ACFM, COTA, RIAS and MOTA have significant effect on the quality of financial reporting. This discovery provides important contributions to the growing body of knowledge on corporate governance (CG), particularly with regards to the applicability of Audit Committee characteristics and internal control components in emerging economies. This study closes knowledge gaps about the value of internal control and audit committee in reducing financial manipulations and improving the accuracy of financial reporting. This study helps the stakeholders emphasize the audit committee and internal control more.

**Practical implications** – Policymakers and regulators can gain from this study by being better able to understand the importance of the audit committee and internal control role in reducing artificial manipulations and so improving the effectiveness of financial reporting.

**Social implications** – The general public can gain from this study by being better able to understand the importance of the audit committee's and internal controls' role in reducing financial manipulation and improving the calibre of financial reporting.

Generally, this study will add to already exiting literature with regards to audit committee characteristics and internal control of service listed firms in Nigeria.

## Limitations of the Study

This study has some limitations:

1. This study only focusses on audit committee size, composition, female members and meeting while there are other audit committee characteristics like audit committee financial expertise, tenure, religion, experiences, ethnic groups whose effect can be measured on the effective financial reporting.
2. The research focuses only on listed service sector in Nigeria while there are other sectors like manufacturing, consumer goods, oil, and gas etc.
3. It only covered a period of eleven years (2010-2020).

## Suggestions for Future Study

This study assessed the importance of the audit committee and internal controls for listed service firms in Nigeria between 2010 and 2020, (11 years). This study then makes the case for future research to include other factors as a stand-in for the effectiveness of internal controls, the audit committee, and financial reporting.

The scope could be increased for future studies; the number of years covered and population sample. Future studies can also look at a different or more than one model.

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# APPENDICES

**Appendix I**

List of all Service firms on the Nigerian Stock Exchange

|  |  |  |
| --- | --- | --- |
| 1 | [ABBEY MORTGAGE BANK PLC [BLS]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGABBEY00001&directory=companydirectory) | ABBEYBDS |
| 2 | [ACCESS BANK PLC. [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGACCESS0005&directory=companydirectory) | ACCESS |
| 3 | [AFRICA PRUDENTIAL PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGAFRIPRUD04&directory=companydirectory) | AFRIPRUD |
| 4 | [AFRICAN ALLIANCE INSURANCE PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGAFRINSURE4&directory=companydirectory) | AFRINSURE |
| 5 | [AIICO INSURANCE PLC.](https://ngxgroup.com/exchange/data/company-profile/?isin=NGAIICO00006&directory=companydirectory) | AIICO |
| 6 | [ASO SAVINGS AND LOANS PLC [DIP]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGASOSAVING3&directory=companydirectory) | ASOSAVINGS |
| 7 | [AXAMANSARD INSURANCE PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGGTASSURE05&directory=companydirectory) | MANSARD |
| 8 | [CONSOLIDATED HALLMARK INSURANCE PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGHMARKINS04&directory=companydirectory) | CHIPLC |
| 9 | [CORNERSTONE INSURANCE PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGCORNERST03&directory=companydirectory) | CORNERST |
| 10 | [CORONATION INSURANCE PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGWAPIC00004&directory=companydirectory) | WAPIC |
| 11 | [CUSTODIAN INVESTMENT PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGCUSTODYIN6&directory=companydirectory) | CUSTODIAN |
| 12 | [DEAP CAPITAL MANAGEMENT & TRUST PLC [DWL]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGDEAPCAP009&directory=companydirectory) | DEAPCAP |
| 13 | [ECOBANK TRANSNATIONAL INCORPORATED](https://ngxgroup.com/exchange/data/company-profile/?isin=TG0000000132&directory=companydirectory) | ETI |
| 14 | [FBN HOLDINGS PLC [MRF][CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGFBNH000009&directory=companydirectory) | FBNH |
| 15 | [FCMB GROUP PLC.](https://ngxgroup.com/exchange/data/company-profile/?isin=NGFCMB000005&directory=companydirectory) | FCMB |
| 16 | [FIDELITY BANK PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGFIDELITYB5&directory=companydirectory) | FIDELITYBK |
| 17 | [GOLDLINK INSURANCE PLC [MRS]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGGOLDINSUR8&directory=companydirectory) | GOLDINSURE |
| 18 | [GUARANTY TRUST HOLDING COMPANY PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGGTCO000002&directory=companydirectory) | GTCO |
| 19 | [GUINEA INSURANCE PLC.](https://ngxgroup.com/exchange/data/company-profile/?isin=NGGUINEAINS0&directory=companydirectory) | GUINEAINS |
| 20 | [INFINITY TRUST MORTGAGE BANK PLC [BLS]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGINFINITY01&directory=companydirectory) | INFINITY |
| 21 | [INTERNATIONAL ENERGY INSURANCE PLC [MRS]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGINTENEGIN5&directory=companydirectory) | INTENEGINS |
| 22 | [JAIZ BANK PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGJAIZBANK05&directory=companydirectory) | JAIZBANK |
| 23 | [LASACO ASSURANCE PLC.](https://ngxgroup.com/exchange/data/company-profile/?isin=NGLASACO0002&directory=companydirectory) | LASACO |
| 24 | [LINKAGE ASSURANCE PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGLINKASSUR7&directory=companydirectory) | LINKASSURE |
| 25 | [LIVINGTRUST MORTGAGE BANK PLC [BLS]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGOMOMORBNK6&directory=companydirectory) | LIVINGTRUST |
| 26 | [MUTUAL BENEFITS ASSURANCE PLC.](https://ngxgroup.com/exchange/data/company-profile/?isin=NGMBENEFT000&directory=companydirectory) | MBENEFIT |
| 27 | [NEM INSURANCE PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGNEM0000005&directory=companydirectory) | NEM |
| 28 | [NIGER INSURANCE PLC [MRF]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGNIGERINS04&directory=companydirectory) | NIGERINS |
| 29 | [NIGERIA ENERYGY SECTOR FUND](https://ngxgroup.com/exchange/data/company-profile/?isin=NGNESF000003&directory=companydirectory) | NESF |
| 30 | [NIGERIAN EXCHANGE GROUP](https://ngxgroup.com/exchange/data/company-profile/?isin=NGNGXGROUP09&directory=companydirectory) | NGXGROUP |
| 31 | [NPF MICROFINANCE BANK PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGNPFMCRFBK0&directory=companydirectory) | NPFMCRFBK |
| 32 | [PRESTIGE ASSURANCE PLC [BLS]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGPRESTIGE00&directory=companydirectory) | PRESTIGE |
| 33 | [REGENCY ASSURANCE PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGREGALINS04&directory=companydirectory) | REGALINS |
| 34 | [RESORT SAVINGS & LOANS PLC [MRF]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGRESORTSAL1&directory=companydirectory) | RESORTSAL |
| 35 | [ROYAL EXCHANGE PLC. [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGROYALEX007&directory=companydirectory) | ROYALEX |
| 36 | [SOVEREIGN TRUST INSURANCE PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGSOVRENINS5&directory=companydirectory) | SOVRENINS |
| 37 | [STACO INSURANCE PLC [MRF]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGSTACO00002&directory=companydirectory) | STACO |
| 38 | [STANBIC IBTC HOLDINGS PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGSTANBIC003&directory=companydirectory) | STANBIC |
| 39 | [STANDARD ALLIANCE INSURANCE PLC. [MRF]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGSTDINSURE7&directory=companydirectory) | STDINSURE |
| 40 | [STERLING BANK PLC.](https://ngxgroup.com/exchange/data/company-profile/?isin=NGSTERLNBNK7&directory=companydirectory) | STERLNBANK |
| 41 | [SUNU ASSURANCES NIGERIA PLC. [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGSUNUASSUR6&directory=companydirectory) | SUNUASSUR |
| 42 | [UNION BANK NIG.PLC. [BLS]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGUBN0000004&directory=companydirectory) | UBN |
| 43 | [UNION HOMES SAVINGS AND LOANS PLC. [MRS]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGUNHOMES007&directory=companydirectory) | UNHOMES |
| 44 | [UNITED BANK FOR AFRICA PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGUBA0000001&directory=companydirectory) | UBA |
| 45 | [UNITED CAPITAL PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGUCAP000004&directory=companydirectory) | UCAP |
| 46 | [UNITY BANK PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGUNITYBANK3&directory=companydirectory) | UNITYBNK |
| 47 | [UNIVERSAL INSURANCE PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGUNIVINSUR9&directory=companydirectory) | UNIVINSURE |
| 48 | [VERITAS KAPITAL ASSURANCE PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGUNITYKAP04&directory=companydirectory) | VERITASKAP |
| 49 | [WEMA BANK PLC. [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGWEMABANK07&directory=companydirectory) | WEMABANK |
| 50 | [ZENITH BANK PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGZENITHBNK9&directory=companydirectory) | ZENITHBANK |
| 51 | [ACADEMY PRESS PLC.](https://ngxgroup.com/exchange/data/company-profile/?isin=NGACADEMY008&directory=companydirectory) | ACADEMY |
| 52 | [AFROMEDIA PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGAFROMEDIA7&directory=companydirectory) | AFROMEDIA |
| 53 | [ASSOCIATED BUS COMPANY PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGABCTRANS01&directory=companydirectory) | ABCTRANS |
| 54 | [C & I LEASING PLC.](https://ngxgroup.com/exchange/data/company-profile/?isin=NGCILEASING2&directory=companydirectory) | CILEASING |
| 55 | [CAPITAL HOTEL PLC [BLS]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGCAPHOTEL09&directory=companydirectory) | CAPHOTEL |
| 56 | [CAVERTON OFFSHORE SUPPORT GRP PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGCAVERTON07&directory=companydirectory) | CAVERTON |
| 57 | [DAAR COMMUNICATIONS PLC [MRF]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGDAARCOMM01&directory=companydirectory) | DAARCOMM |
| 58 | [EUNISELL INTERLINKED PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGINTERLINK3&directory=companydirectory) | EUNISELL |
| 59 | [GLOBAL SPECTRUM ENERGY SERVICES PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGGSPECPLC08&directory=companydirectory) | GSPECPLC |
| 60 | [IKEJA HOTEL PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGIKEJAHOTL7&directory=companydirectory) | IKEJAHOTEL |
| 61 | [JULI PLC.](https://ngxgroup.com/exchange/data/company-profile/?isin=NGJULI000003&directory=companydirectory) | JULI |
| 62 | [LEARN AFRICA PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGLONGMAN007&directory=companydirectory) | LEARNAFRCA |
| 63 | [MEDVIEW AIRLINE PLC [BMF]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGMEDVIEW007&directory=companydirectory) | MEDVIEWAIR |
| 64 | [NIGERIAN AVIATION HANDLING COMPANY PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGNAHCO00008&directory=companydirectory) | NAHCO |
| 65 | [R T BRISCOE PLC.](https://ngxgroup.com/exchange/data/company-profile/?isin=NGRTBRISCOE9&directory=companydirectory) | RTBRISCOE |
| 66 | [RED STAR EXPRESS PLC [CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGREDSTAREX9&directory=companydirectory) | REDSTAREX |
| 67 | [SECURE ELECTRONIC TECHNOLOGY PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGNSLTECH006&directory=companydirectory) | NSLTECH |
| 68 | [SKYWAY AVIATION HANDLING COMPANY PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGSKYAVN0003&directory=companydirectory) | SKYAVN |
| 69 | [TANTALIZERS PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGTANTALIZE1&directory=companydirectory) | TANTALIZER |
| 70 | [THE INITIATES PLC](https://ngxgroup.com/exchange/data/company-profile/?isin=NGINITSPLC05&directory=companydirectory) | TIP |
| 71 | [TOURIST COMPANY OF NIGERIA PLC. [DIP]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGTOURIST009&directory=companydirectory) | TOURIST |
| 72 | [TRANS-NATIONWIDE EXPRESS PLC.](https://ngxgroup.com/exchange/data/company-profile/?isin=NGTRANSEXPR4&directory=companydirectory) | TRANSEXPR |
| 73 | [TRANSCORP HOTELS PLC [BLS][CG+]](https://ngxgroup.com/exchange/data/company-profile/?isin=NGTRANSHOTL1&directory=companydirectory) | TRANSCOHOT |
| 74 | [UNIVERSITY PRESS PLC.](https://ngxgroup.com/exchange/data/company-profile/?isin=NGUPL0000008&directory=companydirectory) | UPL |

**Appendix II**

List of Service firms used in this study

|  |  |
| --- | --- |
| S/N | NAME |
| 1 | ABBEY |
| 2 | ACCESS |
| 3 | ACADEMY PRESS PLC |
| 4 | AFROMEDIA PLC |
| 5 | AIICO |
| 6 | ASSOCIATED BUS COMPANY PLC |
| 7 | AXAMANSARD INSURANCE PLC |
| 8 | C & I LEASING PLC |
| 9 | CAPITAL HOTEL PLC |
| 10 | CONSOLIDATED HALLMARK INSURANCE PLC |
| 11 | CORNERSTONE INSURANCE PLC |
| 12 | CUSTODIAN INVESTMENT PLC |
| 13 | DAAR COMMUNICATIONS PLC |
| 14 | ECOBANK TRANSNATIONAL INCORPORATED |
| 15 | FCMB GROUP PLC |
| 16 | FBN HOLDINGS PLC |
| 17 | FIDELITY BANK PLC |
| 18 | GUARANTY TRUST BANK PLC |
| 19 | IKEJA HOTEL PLC |
| 20 | JULI PLC |
| 21 | NIGERIA AVIATION HANDLING PLC |
| 22 | RED STAR EXPRESS |
| 23 | R T BRISCOE PLC |
| 24 | STANBIC |
| 25 | STERLING |
| 26 | TANTALIZERS PLC |
| 27 | TOURIST COMPANY OF NIGERIA PLC |
| 28 | TRANSCORP HOTELS PLC |
| 29 | UBA |
| 30 | UNIVERSITY PRESS PLC |
| 31 | UNION |
| 32 | UNITY |
| 33 | WEMA |
| 34 | CAVERTON |
| 35 | LAW UNION |
| 36 | ROYAL |
| 37 | REGENCY |
| 38 | SECURE |
| 39 | TRANSNATIONWIDE |
| 40 | UNITED CAPITAL |
| 41 | LASACO |
| 42 | LINKAGE |
| 43 | SOVEREIGN |
| 44 | NPF |
| 45 | UNIVERSAL |
| 46 | PRESTIGE |
| 47 | NEM |
| 48 | GUINEA |
| 49 | VERITAS |
| 50 | ZENITH |

**Appendix III**

Respondents’ Responses

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **S/N** | stat 1 | stat 2 | stat 3 | stat 4 | stat 5 | stat 6 | stat 7 | stat 8 | stat 9 | stat 10 | stat 11 | stat 12 |
| **1** | 5 | 4 | 5 | 4 | 1 | 4 | 2 | 1 | 2 | 5 | 5 | 4 |
| **2** | 4 | 5 | 2 | 5 | 4 | 1 | 1 | 4 | 2 | 5 | 5 | 5 |
| **3** | 5 | 4 | 3 | 4 | 4 | 5 | 3 | 4 | 2 | 5 | 5 | 5 |
| **4** | 5 | 5 | 5 | 4 | 1 | 4 | 4 | 4 | 2 | 5 | 5 | 4 |
| **5** | 5 | 5 | 5 | 5 | 1 | 5 | 4 | 4 | 2 | 5 | 1 | 5 |
| **6** | 5 | 4 | 5 | 5 | 4 | 5 | 2 | 4 | 3 | 5 | 5 | 5 |
| **7** | 5 | 2 | 5 | 4 | 1 | 4 | 5 | 5 | 3 | 5 | 5 | 5 |
| **8** | 4 | 4 | 5 | 2 | 4 | 5 | 4 | 4 | 4 | 4 | 5 | 5 |
| **9** | 5 | 5 | 5 | 5 | 4 | 4 | 3 | 1 | 4 | 4 | 5 | 5 |
| **10** | 5 | 4 | 3 | 5 | 1 | 5 | 4 | 4 | 4 | 5 | 5 | 5 |
| **11** | 5 | 4 | 2 | 4 | 4 | 4 | 2 | 2 | 4 | 5 | 5 | 5 |
| **12** | 4 | 4 | 5 | 5 | 1 | 5 | 1 | 4 | 4 | 4 | 5 | 5 |
| **13** | 5 | 5 | 4 | 5 | 1 | 5 | 4 | 1 | 4 | 5 | 1 | 5 |
| **14** | 5 | 5 | 5 | 2 | 4 | 1 | 4 | 1 | 4 | 5 | 5 | 5 |
| **15** | 5 | 4 | 3 | 4 | 1 | 5 | 2 | 5 | 4 | 5 | 5 | 5 |
| **16** | 5 | 5 | 5 | 5 | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 5 |
| **17** | 4 | 4 | 4 | 2 | 4 | 4 | 4 | 4 | 4 | 5 | 1 | 5 |
| **18** | 5 | 5 | 5 | 4 | 1 | 5 | 4 | 2 | 4 | 5 | 4 | 5 |
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