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BOARD INDEPENDENCE, AUDIT EFFECTIVENESS AND THE QUALITY OF REPORTED EARNINGS IN THE NIGERIAN CONSUMER GOODS FIRMS

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Abstract
This paper studied the link of board independence, audit effectiveness and the quality of reported earnings in Nigeria. Using convenient sampling, 7 consumer-goods firms quoted in the Nigerian stock exchange (NSE) from 2016 to 2020 (5 years) were used in conducting the research. The data source was primarily obtained from firm's annual report and analyzed by using Random Effect GLS in STATA 14. The findings show that board independence and expertise are statistically significant in affecting the quality of reported earnings. The result found board independence and audit expertise to be negatively affecting earnings quality in the Nigerian consumer goods firms. Considering the fact that the results found the characteristics of firms board – independence and expertise - to be significant in affecting earnings quality, the study recommended that the financial users should not over rely and have absolute confidence in using financial report. The monitoring mechanisms for shielding financial report may not be effective, and the final report can mislead the stakeholders in their various decisions. Thus, the regulatory bodies should focus more in revising it guides that will improve quality of earnings to restore stakeholder's confidence in using financial reports.

Key words: Earnings Quality, Earnings Persistence, Board Independence and Audit Effectiveness
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1. Introduction
There is need for a constant and periodic presentation of qualitative financial statement by every firm as per its true financial status so as to abreast the related stakeholders with all necessary information they required for their decisions. This is in line with Kusnadi Leong Suwardy and Wang (2015) which documented that due to the asymmetrical differences between the management and the stakeholders, there may be fraudulent presentation of financial statement, and any miss-presentation of firm's performance by the management is detrimental to the stakeholders – specifically the equity holders. Decline in Quality of financial

reporting fades the confidence of investors; it is as a result of abuses by the management on the ethics and practice of corporate reports, several scandals in Nigeria were uncovered such as oceanic Bank, Cadbury Plc, Intercontinental Bank and so on (Mbobo & Umoren, 2016). Reacting to such scandals nationally and globally, several measures were taken (Such as, Sabanes-Oxley Act of 2002 (SOX) in USA; The Blue Ribbon Committee, 1999 and Corporate Governance Code by Nigerian Security and Exchange Commission (SEC) 2003, and modified in 2011). Literature has not been consistent on earnings quality as it reflects divergent opinions that describe the linkage between quality of reported earnings and the influence of earning persistence over it (Nelson & Skinner, 2013). As further explained by Dichev, Graham, Harvey and Rajgopal (2013); Velury and Jenins, (2006), despite the criticality of earnings quality in financial reporting, yet it has not got generalized definition and terms of its measurement by empirical researches as various proxies were used in measuring it. Some of these proxies are: earning persistence, smoothing, numerous benchmarking beating, asymmetry in time-loss recognition, predictability, and magnitude of accruals with several ways of detecting it.

Kantudu and Samaila, (2015) stated that although the financial statement serve as a fundamental basis through which the stakeholders examine the board effectiveness and how it perform, several loopholes are been used by the management to systematically temper and contaminate the quality of the financial reports. Earnings quality and usefulness of financial report as parameters for reporting criteria differs with firm's efficiency as they do not signifies optimality, the reason for this is that the variant of either lower demand for quality or higher cost of its supply does not imply sub-optimality (Ball & Shivakumar, 2005). This call for a decent policy that will checkmate the entire process and to ensure a qualitative financial report that will restore the confidence of all related stakeholders. Thus, it is one of the most important aims of researching on corporate governance mechanisms, to empirically show how agency crisis as a result of separation between ownership and control, can be mitigated through the information contained in the financial report (Bushman & Smith, 2001).

Corporate board and the audit committee are regarded as the core components responsible for the safeguarding of financial report; this is why almost all alleged failures and malpractices were attributed to them (Gosh, Marra & Moon, 2010). Corollary referencing, financial report can be ameliorated with board independence since outside director has a specific motive contrary to inside director, to diligently protect shareholders interest in a deteriorated agency situation and thus, the management efficacy will be improved. Being effective, audit committee

observably monitors the corporate board performance in enhancing the credibility of financial report; serves as a checkmating mechanism that defends the stakeholder's interest by intermediating between the independent auditors and the directors. Soliman and Ragab (2014) argue that auditors are expected to verify the financial report and state the level of compliance with the regulatory laws as well as its true reflection of the firm's condition in terms of its operations and economical value, purposely to add credibility to the financial report.

In Nigeria, the Security and Exchange Commission (SEC) 2011 has revised its initial Corporate Governance Code of 2003 to steadfastly enhance corporate governance practice and protect investors. Eyenubo, Muhammed and Ali (2017) reported that despite the efforts by Nigerian government to improve regulations in the corporate governance mechanisms - including both audit committee and board of directors, it has woefully failed to ensure credibility in financial reporting. Coming up with governance mechanisms in Nigeria is aimed at reducing the issues of corporate failures, but however, the corporate scandals still occur incessantly (Miko & Kamardin, 2015), such scandals in Nigeria includes removal of some CEO's due to financial irregularities that affected several corporate bodies (Ejeagbasi, Nweze, Ezeh & Nze 2015); sale of forged shares of public quoted companies (Kantudu & Samaila, 2015) few to be mentioned.

Although there has been a reasonable amount of literature on corporate board, audit committee and the financial reporting quality (Akeju & Babatunde, 2017; Khalil & Ozkan, 2016; Sun & Liu, 2013; Johl *et al.*, 2013; Wu, Wang & Yin, 2007; Xie, Davidson III & DaDalt, 2003; Klien, 2002; DeZoort & Salterio, 2001), pre and post regulation code evidences (Miko & Kamardin, 2015; Malik, 2014 and Gosh *et al.*, 2010), a little emphasis was given to the developing countries such as Nigeria. Hence, the uniqueness of this study is to consider specific corporate governance attributes – which are the board independence, audit effectiveness and financial reporting quality. Unlike the prior Nigerian literatures where considerations were vested on pre SEC corporate governance code 2011 (Kantudu & Samaila, 2015 and Hassan, 2013) or both data from pre and post 2011 SEC regulation code without comparison (Akeju & Babatunde, 2017 and Mbobo & Umoren, 2016), or Comparing and assessing pre and post SEC code of 2011 (Miko & Kamardin, 2015), the study used the data from post SEC corporate code of 2011 only to implore its effectiveness. Thus, this study will concentrate on specific features of corporate using consumer goods firms to establish the unitary behavior of the variables affecting financial reporting quality. The study, using the Nigerian context, examines how financial reporting quality behaves toward some specific corporate governance attributes in a severely distorted economic situation.

Therefore, the study examines the effects of board independence, audit effectiveness (Audit committee meetings and expertise) and the quality of reported earnings of listed Nigerian consumer goods firms. Hence, the study hypothesize that there is no significant relationship between board independence, audit effectiveness and quality of earnings. The study aimed to contribute in enriching the literature and equip all related stakeholders with empirical evidence of how some factors influence the quality of financial statement specifically in Nigerian context. The evidences of which will basically serve as a yardstick for decision making, improving regulatory framework and addressing any challenge of fraudulent financial reporting.

2. Literature Review/Theoretical Framework

This section presents a review of relevant literature on the relationship between board independence, audit effectiveness and the quality of reported earnings. By the end of the section, a theoretical frame work will be presented.

The quality of reported earnings depends on the effectiveness and guarantee of monitoring mechanisms, for instance, a governance mechanism capable of efficiently controlling the process of financial reporting. Galal, Soliman and Bekheit (2022) described the director's independence as the core corporate governance aspect that will undoubtedly play a key role in supervising firm's financial reporting process and the quality of reported earnings. Strengthening the board of directors, such as enhancing the board's independence, improving the capabilities of detecting problems in financial statements, and clarifying explicitly directors' responsibilities, is regarded as a way to effectively ameliorate the corporate governance actions and the quality of financial reporting. This idea has been increasingly adopted in various regulations and rules made by concerning professional associations and regulatory bodies.

Similarly consistent with this view, Kantudu and Samaila (2015) and Klien, (2002) documented that financial report tend to be more qualitative if there is high proportion of non-executive director, meanwhile, a structured board that is more independent is highly effective in financial reporting process. The proportion of non-executive directors is greater on the firms governing board and an independent audit committee may not be sufficiently enough to curtail opportunistic earnings management. Because the audit committee's mere existence does not ensure that it will serve as an effective monitoring body, the impact of its characteristics needs to be given further thought. As a result, corporate governance standards establish specific qualities for the audit committee's composition and structure in order to guarantee its performance (Akpomedayo & Williamson, 2021). Hence, improved

audit quality has the ability to reduce reported profits uncertainty by limiting earnings management. Therefore, investors are better able to identify a company's genuine value because earnings management tactics are regulated.

Lippolis and Grimaldi (2020) aims to analyze the relationship between the characteristics of the Board of Directors (BoD) and the effectiveness of the monitoring of earnings manipulation activities in family – controlled companies in Italy. In particular, specific hypotheses relating to the link between those aspects of the Board, that substantiate its independence, and earnings quality have been formulated to verify whether the mechanisms for monitoring management activity are less effective in these companies. This study applies a univariate and multivariate methods on a sample of Italian listed company over the period 2014-2016. Earnings management is defined by the proxy of abnormal working capital accrual (AWCA) estimed model according to DeFond and Park (2001). Proxies for corporate governance mechanism are the board size, the level of board independence, the CEO non-duality and the interaction between the last two variables. The research shows that independent directors are not, as in other contexts, a factor that contributes to earnings quality, in the same way that the separation of the offices of Chairman of the Board of Directors and Chief executive Officer (CEO) does not appear to be relevant to this end. In the study of Akpomedayo and Williamson, the researchers examine the relationship between board independence and earnings management of listed healthcare firms in Nigeria. Using convenience sampling, a panel data from eleven (11) healthcare companies that are listed on the Nigerian Stock Exchange were collected from 2012 to 2019. Inferential analyses were done using ordinary least square and logit regression techniques based on 5% level of significance. Earnings management was operationalized with earnings restatement and discretionary accruals. On the final analysis, it was found that board independence was negatively and significantly related to both earnings restatement and discretionary accruals. Therefore, on the basis of the results obtained, the study came to the conclusion that is consistent with independent directors having strong incentives to curb earnings management tendencies. It is therefore recommended that listed healthcare companies should ensure adequate and reward remuneration package to attract and retain industry-experienced independent professionals to serve on their boards.

Ejeagbasi *et al.*, (2015) used 11 Nigerian deposit money banks as sample with 77 firm-year observations, covering the periods 2007-20014 to examine the relationship between the qualities of audit report and corporate governance. Their result suggests that while board compositions have negative and insignificant relationships with audit quality, separation of the roles of the CEO from that of the

chairman of the board, board size, and compositions of the audit committee have a positive and significant relationship with audit quality. Furthermore, in another research by James & Izien, (2014), the findings show that a corporate board and audit characteristic has a positive but insignificant relationship with audit quality. However, the study concludes that effective corporate governance arises out of responsible and simultaneous vigilant actions by the managers, the board of Directors, shareholders and auditor's effectiveness.

A research by Al-Ajmi, (2009) documented the perceptions of credit and financial analysts with regard to the relationship between the effectiveness of audit committee, size of the auditing firm and audit quality in the context of Bahrain, which is characterized by a developed financial sector, low-liquidity stock market, low turnover in board of directors of listed firms, an inactive merger and acquisitions market and almost non-extent litigation. A survey of 300 credit and financial analysts shows that analysts considered auditors' opinion useful. Both credit and financial analysts see the credibility of financial statements to be a function of the size of the auditing firm. Both groups assume that the characteristics of Big-Four firm's allow them to produce better-quality reports than non-Big firms. Audit committee was found to affect earnings quality and hence impair financial report quality, likewise effective audit committee improve the quality of auditors reports and financial analyst perceive financial report to be more credible.

In a paper by Felo, Krishnamurthy and Solieri, (2003), it has been empirically examine the relationship between two audit committee characteristics - the composition (expertise and independence) and size of the audit committee - and the quality of financial reporting. The findings shows that after controlling for firm size, board composition and institutional ownership and the percentage of audit committee members having expertise in accounting or financial management is positively related to financial reporting quality. The result also provides an evidence of a positive relationship between the size of the audit committee and financial reporting quality. However, audit committee independence is not related to financial reporting quality. The study suggested that mandating greater expertise on audit committees rather than simply requiring one expert on the audit committee may be beneficial to investors. In addition, the results also provide weak support for the recommendation of the Blue Ribbon Committee that firms devote significant directorial resources to the audit committee. Given the prior evidence of a negative relationship between financial reporting quality and cost of capital, firms could improve their reporting quality by appropriately structuring their audit committees, thus reducing their cost of capital.

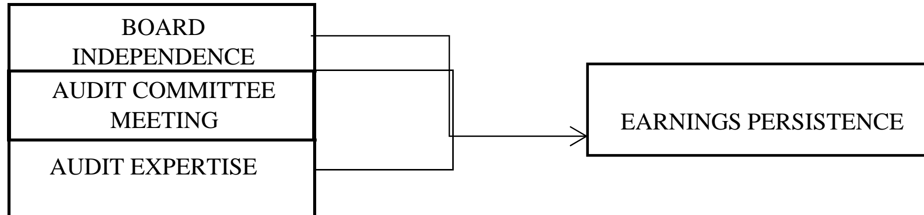
It is however, that the literature didn't provide an obviously consistent result that shows the relationship between board independence, audit effectiveness and Earnings quality. Although, there are numerous literatures as for reporting quality, the Nigerian literature fails to measure the efficiency of SEC 2011 code of corporate governance, as data from specific period of its implementation are not captured alone by the literature. Furthermore, most of the literatures are in wholly generalizable form, the literature fails to establish the unitary behavior of the concern variables specifically in exceptionally problematic situations where the firms are faced with tedious economic aspects of recession, political and global changes.

2.1 Theoretical frame work

This study will use stakeholder's theory to explain the relationship among the variables. The theory was adopted to fill the observed gap created by omission found in the agency theory which identifies investors (equity owners) as the only interest group of a corporate entity (Ejeagbasi *et al.*, 2015). Within the framework of the stakeholders' theory the problem of agency has been expanded to include multiple principals including creditors, government, employees, suppliers and general public. The stakeholders' theory attempts to address the questions of which group of stakeholders deserve the attention of management. The stakeholders' theory proposes that companies have a social responsibility that requires them to consider the interest of all parties affected by their actions. The original proponents of the stakeholders' theory suggested a restructuring of the theoretical perspectives that extends beyond the owner Manage-employee position and recognizes the numerous interest groups. If organizations want to improve their efficacy, they must consider the relationships that can affect or be affected by the achievement of the organization's objectives (Ejeagbasi *et al.*, 2015).

In agency relationship, the theory is based on the idea of separation of ownership (referring to principal) and management (referring to agent). It is generally assumed that there is presence of information asymmetry, where by the agent is likely to pursue interest that may hurt the principal, i.e. the two parties who enter into the contract will act to maximize their own self-interest and that all actors have the freedom to enter into a contract or to contact elsewhere (Hassan, 2013). The study will therefore use the framework as depicted by the figure 2.2.1 below. It establishes the relationship of board independence, audit effectiveness (audit committee meeting and expertise) and earnings quality proxy by earnings persistence.

Figure 2.2.1:



3. Methodology

The population of this study comprises all 22 listed consumer goods companies on the Nigerian stock exchange (NSE) as at 31st December, 2020. However, a convenient sampling approach was adopted to filter out those firms that have problem with their data due to its availability. A company must be listed on NSE within period of the study; and have presented the required financial report available for it to be among the study sample. Therefore, the population was adjusted considering the criterion. Only seven companies perfectly pass through the filtration processes. The firms are Dangote Sugar Plc, Newco, FlourMills, Nestle Nigeria, Nigerian Breweries, PZ, and Uniliver. The study covers the period of five (5) years from 2016 to 2020 with thirty five (35) firm-year observations.

As explained by Dechow *et al.* (2010) and Defond (2010), Earnings persistence (EP) is a forefront proxy of earnings quality and a measurement of financial reporting quality. A simple linear regression of previous year earnings ($Earnings_{t-1}$) as the dependent variable is to be run against an explanatory variables of current year earnings ($Earnings_{i,t}$). The beta value (coefficient of the explanatory variable) from the regression residuals is the determinant that shows the level of earning persistence. A beta of higher value tends to have more desirable earnings and cash flow stream which will affect the firm's market value. The model was used by sloan (1996) and is based on the views of Graham and Dodds (1934) on earnings as a simple matric that can be used to predict cash flows and quality valuation. TheEP model is as follows:

$$Earnings_{t-1} = \alpha + \beta Earnings_t + \varepsilon_t \qquad \text{(eqt 1)}$$

$Earnings_{t-1}$ is the previous year absolute value of earnings
$Earnings_t$ is the absolute value of current year earnings
α is the intercept,
β is the coefficient of the explanatory variable (which as far this study explain the magnitude of EP), and
ε_t is the error term of the residuals.

The model of this study consists of two variables; the explained and the explanatory variables. The explanatory variables constitutes board independence, audit effectiveness (audit committee, meetings and expertise) while the dependent (explained) variable is the quality of reported earnings proxy by the coefficient values of current earnings from the output of *eqt 1* in detecting the level of persistence.

The longitudinal and balanced panel data used by this study employs EP as proxy for the quality of reported earnings as it was measured by Sloan (1996) and Dechow *et al.*, (2010), therefore the dependent variable EP, which is measured by the coefficient values of reported earnings that have been tested as to have a highly and significant persistence over time by *eqt* 1.

As for the explanatory variables, three variables were used. The variables are Board independence (B_IND) measured by the proportion of independent directors to the total number of directors on the board (Sun & Liu, 2013; Wu *et al.*, 2007; Song & Windram, 2004; Xie *et al.*, 2003; Klien, 2002 & Beaseley 1996); Audit committee meetings (AC_MTIN) measured as total number of meeting by the committee in the financial accounting period (Eyenubo et al., 2017; Malik, 2014; DeVlaminc & Saren, 2013 & Soliman & Ragab, 2014). Audit committee expertise (AC_EXPRT) is the last variable in the model. It is a dummy variable that reflect 1 if there is an expert in the committee and 0 if it is otherwise. The meaning of expert is to have a qualification of any national or international professional accounting body such as ANAN, ICAN or ACCA (Al-Ajmi, 2009; Abbott, *et al.*, 2004; Felo *et al.*, 2003; DeZoort *et al.*, 2002 & DeZoort & Salterio, 2001). The study holds firm size for control variable. The natural log of total asset (LOG_TA) is the proxy that featured in the model (Kantudu & Samaila, 2015; Hassan, 2013 & Rainsbury, Bradbury & Cahan, 20009). The firm size as a control variable is paramount because the expectation is that a larger firm may have wider problem considering the stakeholders theory (Hassan, 2013). Moreover, Kantudu and Samaila (2015) state that lager firms may contain more information required by the stakeholder's.

Base on the afore-mentioned variables the model is specified as follows:

$$EP_{it} = \alpha+\beta_1 BIND_{it}+\beta_2 AC_MTIN_{it}+\beta_3 AC_EXPRT_{it}+\beta_4 LOG_TA_{it}+\varepsilon \text{.......... } (eqt\ 2)$$

Where:
EP = earning persistence
BIND = Board independence
AC_MTIN = Audit committee meetings
AC_EXPRT = Audit committee expertise

LOG_TA = Natural log of total assets
α = The intercept (i.e parameter of the estimate as an average amount that is directly proportion of the dependent variable to the independent variable whether it increase upward or downward).

β_n = the coefficients values or the partial derivatives (independent variables gradients)
ε = stochastic error term

4. Data Presentation and Analysis

A linear regression was used to test the level of earnings persistence as mentioned earlier using *eqt 1*. The result shows that the overall earnings persistence is very high, having a percentage of 98% (the overall coefficient of current earnings from the regression output) with 1% level of significance). This entails further that the invariability of earnings increasing in the Nigerian consumer goods firms is a systematic way of improving the earnings quality that can be regarded as smoothening. After all, the beta figures for each firm-year observation was predicted and used in the panel as the measure to explain EP.

4.1 Descriptive Statistics and Correlation Results

Table 4.1.1 Descriptive Statistics

Variables	Mean	Std. Deviation	Minimum	Maximum	Skewness	Kurtosis
EP	1.20	1.30	7.39	4.31	0.00	0.33
BIND	0.21	0.11	0.06	0.44	0.73	0.04
AC_MTIN	3.88	0.90	1	5	0.00	0.02
AC_EXPRT	0.65	0.48	0	1	0.09	0.00
LOG_TA	7.78	0.61	6.33	8.56	0.00	0.30

Source: STATA 14 output.

In table 4.1.1, the descriptive statistic shows that EP is having the mean average of 1.20 and the standard deviation of 1.30 meaning that there is slight deviation of the data from the mean. The table also shows the minimum, maximum, skewness and kurtosis values for the dependent variable. However, both skewness and kurtosis figures fails to meet the criterion of Gausian and asymmetrical distribution which suggested them to be 0 respectively in some instances of BIND & EP, though the figures are all positive. Further explanation from the table is the mean values of board independence, audit committee meeting and audit expertise of 0.22, 3.9 and 0.66 respectively. The revealed values of standard deviation for all independent variables shows a wide variation from the mean which implies that there is present of dispersion among the variables.

Table 4.1.2 Correlation matrix

	EP	BIND	AC_MTIN	AC_EXPRT	LOG_TA
EP	1.0000				
BIND	-0.2213***	1.0000			
AC_MTIN	-0.1588***	-0.1153***	1.0000		
AC_EXPRT	0.4576**	-0.5103*	-0.0252***	1.0000	
LOG_TA	0.5386*	-0.1629***	-0.247***	0.6300*	1.0000

Source: STATA 14 output ***(the asterisks *, **, and *** shows the significance levels at 1%, 5% and 10% respectively).***

The summary of Pearson correlation result was shown in table 4.1.1. EP is statistically insignificant related to both board independence and audit committee meeting. The relationship appears to be negative at 10%, meaning that even if EP will influence board independence and audit committee meetings it will be an inverse relationship i.e. EP increase with the decrease of board independence and audit committee meetings. Contrary to BIND and AC_MTIN, audit expertise is statistical significant in affecting EP. The correlation coefficient of 0.4576 is significant at 5% (95% degree of confidence). The implication of this that EP and AC_EXPRT are moving towards the same direction i.e. each increase of EP will also increase AC_EXPRT. In summary, the bivariate analysis shows the influence of EP over the explanatory variables. Henceforth, the multivariate figures reflect that there is more likely absent of collinearity between the variables.

Table 4.1.3 Random-Effect GLS regression results

EP	Coefficient	Std. error	t-values	Prob. Chi^2
Constant	3.87	2.17	1.78	0.07
BIND	-1.88	82	-2.28	0.02
AC_MTIN	-78534.32	71	-0.11	0.91
AC_EXPRT	-37	19	-1.87	0.06
LOG_TA	-25	27	-0.99	0.35
R square	0.16			
Wild Chi	8.80			
f-statistics	2.59			
Sig.	0.06			

Source: STATA 14 output

The interpretation of random-effect GLS result was selected after all post estimation test reveals it appropriateness over OLS and fixed effect models. Hausman test was conducted after the data was run using both fixed and random effect models. Both Hausman and Breusch-Pegan Langrangian Multiplier test for

random effect shows that random effect GLS is more appropriate to explain the relationship between EP and the explanatory variables in this study.

Cumulatively, the overall relationship between EP and board independence, audit committee meeting and audit expertise is positively 0.16 as depicted by the multiple coefficient of determination which is the R^2; it means that 16% variation of earnings persistence in the Nigerian consumer goods is caused by board independence and audit effectiveness. Similarly the table shows the fitness of the model. The f-statistics of 2.59 which is significant at 5% confirms that the independent variables jointly and significantly the variation in the dependent variable. Therefore all the selected variables are proper and appropriate.

Furthermore, the result shows that board independence has negative relation with EP and statistically significant at 5% significance level. The practical implication of this is that an independent board is negatively affecting the quality of reported earnings. Thus, having more independent directors on the board reduce the quality of financial reports through reported earnings. This is contrary to the expectation that the board independence will enhance the quality of financial reporting. Although, it may be possible since the independent directors are not fully participants and well engaged in the financial reporting process, and most at times they are less informed and lack expertise in reporting process. Independent directors may have influence over the board decisions, and the dominance of their view will affect the EQ due to asymmetrical difference within the board. The result is consistent with prior researches such as Sun and Liu, (2013); Bradbury *et al.*, (2009) Song and Windram, (2004); Vafeas, (2005) and Abbott, Park and Parker (2000); However, the result is contrary to Khalil and Ozkan, (2016); Kantudu and Samaila, (2015); Hassan (2013); Xie *et al.,* (2003); Klien, (2002) and Bushman and Smith, (2001).

The regression table also reflects that the relationship between EP and audit expertise is negatively insignificant a t-value of -1.87 with a corresponding p-value of 0.06. This is also contrary to the expectation that audit expertise will improve the quality of financial reporting. As implied by the result, having expert in the audit committee is inconsequential to earnings persistence. The result is consistent with the findings of DeVlaminck and Saren, (2013) and Felo *et al.*, (2003). But however, the result contradicts Johl *et al.*, (2013); Lin, Li and Yang, (2006) and Abbott *et al.*, (2004).

The study is therefore having various practical, theoretical and regulatory implications which will serve as the major contribution of the study to the existing

literature on financial reporting and the Nigerian regulatory bodies. The findings suggest that there is need to re-strategize the corporate board in such a way that the board can have other means of enhancing reporting quality. The regulatory bodies should also look a way to improve the board independence so as to have a financial report the will not be misleading. As for the audit committee, the financial report users should not over rely on the audit committee effectiveness since it has statistically shown that the committee cannot be 100% reliable. Moreover, the practical pressures on audit committee can force the auditors to pervert from what is expected from them. The result contradict the theory from all angles which says that both board independence and audit effectiveness are instrumental organs in enhancing quality of reported earnings.

5. Summary and Conclusion

The findings of this study are complementary to those in extant earnings quality literature as it shows that changes in board independence and audit effectiveness are significantly negative and influencing the quality of reported earnings. Board meeting and firm size are however insignificant to affect earnings quality. In fact, the results suggest that having an expert on the audit committee may reduce the quality of financial report as such, users should be extra careful in using it more specifically the reported earnings. In addition, the results suggest that commitment of more directorial resources to the audit effectiveness may not enhance the firm's reporting quality because it influences the reporting process negatively. Base on the result, there is need to further look over the laid governance practice in the Nigerian consumer goods firms.

However, the study concludes that the regulatory bodies should put more emphasis on earnings persistence in the listed consumer goods firms in Nigeria so as to enhance the financial reporting process through board independence and audit effectiveness. Similarly, the reported earnings cannot be 100% reliable due to inability of monitoring mechanism in shielding it quality. It is also contrary to the expectation that board independence and audit effectiveness can mitigate agency crises through the quality of financial report. Again, the nature of listed consumer firm in Nigeria contribute in defaming the process of financial report, such a situation is basically cause by a severe distorted economic activities. Finally the study recommends board independence and audit effectiveness should be carefully monitored as they are significant determinants of earnings quality through which they affect the decisions of the financial report users.

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