

**EFFECTS OF AUDIT COMMITTEE CHARACTERISTICS ON EARNINGS
QUALITY OF LISTED CEMENT FIRMS IN NIGERIA**

BY

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**BEING A DISSERTATION SUBMITTED TO THE SCHOOL OF POSTGRADUATE
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DECLARATION

I hereby declare that this dissertation has been written by me and it is a report of my research work. It has not been presented in any previous application for degree. All quotations are indicated and sources of information specifically acknowledged by means of references.

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CERTIFICATION

The dissertation entitled “Effects of Audit Committee Characteristic on Earnings Quality of listed Cement Firms in Nigeria”, meets the regulations governing the award of Master of Science (M.Sc) Degree in Accounting and Finance of the School of Postgraduate Studies, Nasarawa State University, Keffi and for its contribution to knowledge.

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DEDICATION

I dedicated this dissertation to: God Almighty who made it possible to accomplish this research work. I also dedicated it to Mrs. Ezike Agnes Chinwe; Late Mr. Ezike Okonkwo; Mr. and Mrs. Ezenri Victoria Ginika; sister Chikodi and Rita; my husband: Mr. Ugwoke Emmanuel Chinaedu .S. Johnson, my beautiful twins: Ugwoke Chidera Elizabeth and Ugwoke Chinaemelum Edith; Ugwoke Faith Chielota; Mrs. Hassana Yahaya Ndanitsa, Mr. Clement Uwaifo and all scholars.

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Abstract

This study examines the effect of audit committee characteristics on earnings quality of listed cement firms in Nigeria for the period of 2006 to 2015. This study adopts ex-post facto research design. The study population is the four cement companies listed on the Nigerian Stock Exchange for the period of 2006-2015, these four companies form the sample size for this study and censoring sampling techniques were employed on the study. Secondary data were collected from the Nigeria Stock Exchange (NSE) for the period of 2006 to 2015. Panel regression analysis was used to analyze the hypotheses with reference to Hausman test to determine whether to use fixed or random effect using E-view for window. Based on Hausman test, fixed effect regression was adopted for the study. This study found that audit committee number of meetings, audit committee independence and audit committee financial expertise have significant positive effect on discretionary accruals, while audit committee size have insignificant negative effect on discretionary accruals of listed cement firms in Nigeria. Based on the findings, the study recommends that audit committee number of six (6) as it is stipulated by Securities and Exchange Commission (SEC) should be maintained as it is found by this study that audit committee size has not encouraged earnings management of listed cement firms in Nigeria while the audit committee independent, audit committee meetings and the audit committee financial expertise should also be maintained as it has a significant positive influence on discretionary accrual. The study concludes that audit committee number of meetings, audit committee independence and audit committee financial expertise have significant positive effect on earnings quality while audit committee size has insignificant negative effect on earnings quality of listed cement companies in Nigeria.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Financial scandals and the collapse of some multi-national corporations can be as a result of the unethical accounting practices. Also, one of such unethical issues in accounting is earnings manipulations that come under the umbrella of earnings management and serves as a strategic tool used by management under the pretext of maximizing firm's value and reducing risks. This is possible by distorting and manipulating the application of Generally Accepted Accounting Principles (GAAP) (Bala & Kumai, 2015). However, corporate governance has created significant changes in business environments in general, and in the accounting and auditing professions in particular. Therefore, the interest in the role of audit committees has increased in the last few years because it is the tool of corporate governance, whose aim is to increase the questioning of the board of management and to increase the role of audit and its independence, after several financial failures of many local and international companies (Hamdan & Mushtaha, 2011).

Furthermore, during the last years, there was, as well, an increasing organizational interest in the role of the audit committee in preparing financial reports. In addition, the credibility and fairness of financial reports issued by companies depends on the existence of an audit committee emerging from management councils of such companies. Similarly, it was also argue that an audit committee would be more active in the process of monitoring financial statements and limiting the differences between the management and the external auditor. This reduces the probability of the company receiving qualified opinions from the external auditor resulting from accounting errors or non-commitment to accounting standards. Thus,

audit Committee helped to resolve conflict and disagreements with management in an organization. In light of this, earnings management is seen as an attempt by management to induce, or influence or manipulate reported earnings by using specific accounting method or changing methods; recognizing one-time non items, deferring or increasing expenses or revenue transactions or using other methods designed to influence short term earnings. This practice, "causes erosion in the quality of earnings, and consequently the quality of financial reporting will lose out to illusion" (Rahman, Muniruzzaman & Sharif, 2013).

However, series of corporate scandals around the world eroded the trust in the financial statement, and placed a doubt in the mind of investors, which resulted to the loss of confidence by investors worldwide. Therefore, a scandal like: the collapse of the energy corporation Enron in 2001 where the company filed for bankruptcy after adjusting its accounts, Global Crossing, WorldCom, and Rank Xerox in developed nations. Also, in Nigeria, Cadbury Nigerian PLC this is where the company's share price declined from N86.52 per share as at December, 2005 to N8.65 as at October, 2009. Also, Afri Bank Nigeria PLC and Intercontinental Bank PLC faced problem of financial reporting in 2009, Benue Cement Company Gboko, Niger Cement Company Nkalagu, Nigerian. Lever Brothers PLC this called for attentions of the investors, because, they suffered loss of their investments (Fodio, Ibikunle & Oba, 2013). Similarly, the number of financial fraud increase from 18.2% in 2008 to 31.0% in 2012, which is a serious issue that will call the attention of scholars and the authorities for the reasons behind this scenario (Nigeria Deposit Insurance Corporation [NDIC], 2014).

However, on the process to restore the confidence to the investors, different laws were puts in place, like; Sarbanes-Oxley Act Code 2000 in US, corporate governance code 2011 in

Nigeria. In light of this, the central objective of corporate governance code was to restore the reliability of financial statements by curbing earnings management and accounting fraud. Thus, launching of governance mechanisms Code 2003 in Nigeria is expected to mitigate corporate scandals and other related issues. Therefore, corporate failure and scandals like in the case of Wema Bank PLC and Spring Bank PLC in Nigeria as a result of mismanagement of capital was the sufferer of poor corporate governance practice (Demaki, 2011).

Consequently, in Nigerian, the regulatory authorities have responded by compelling companies to comply with stringent corporate governance codes. The Security and Exchange Commission [SEC] (2011) states that Nigeria has multiplicity of code of corporate governance with distinctive dissimilarities namely; Security and Exchange Commission (SEC) code of corporate governance 2003 to guide the operation of public companies listed in the Nigerian Stock Exchange, Central Bank of Nigeria (CBN) code of 2006, National Insurance Commission (NAICOM) code of 2009. Therefore, every public company is required under section 359(3) and (4) of the Company and Allied Matters Act [CAMA] (1990) as amended to establish an audit committee. Thus, it is the responsibility of the board to ensure that the committee is constituted in the manner stipulated and is able to effectively discharge its statutory duties and responsibilities. At least one board member of the committee should be financially literate; members of the committee should have basic literacy and should be able to read financial statements. Also, one member should have the knowledge of accounting or financial management, whenever necessary; the committee may obtain external professional advice. Thus, audit committees have been regarded as integral to quality financial reporting. Therefore, companies that established audit committees have to improve quality of financial reporting practices and earning (Ramsay, 2001).

However, despite the existence of this monitoring committee, there were a lot of corporate failures in recent years, for instance, the accounting scandals by Cadbury Nigeria PLC, Intercontinental Bank Plc, Benue Cement Company Gboko, and Oceanic Bank PLC. These have brought about doubt in the minds of shareholders on the credibility and reliability of financial reports. In addition, it was as a result of the foregoing statements that researchers consider it of paramount importance to investigate the effect of this audit committee characteristic on earnings quality. Consequently, the literature on the relationship between audit committee characteristics and earnings quality is inconclusive. Some studies found positive relationships while others found negative associations like: (Beasley & Selterio, 2001, Lin, Li & Yang, 2006). Also, other researchers reported no relationships like; (Nelson & Jamil, 2012). These mixed findings make the direction of these relationships to be illusive, and to the best of my knowledge, there is no study in Nigeria that has attempted to resolve the mixed result particularly in listed cement firms in Nigeria.

Therefore, the basic functions of audit committee are to oversee the financial reporting process and to monitor manager's tendencies in manipulate earnings. Also, regulators in recent years have questioned the effectiveness of audit committee in ensuring that financial statement are fairly stated, and are without earning quality (Okoro & Okafor, 2013). Thus, earning quality is an important element in the agency contract. Therefore, earning is the basis for bonus plan, earnings related to debt covenants, and earning is also related to a political cost. Thus, if the earnings quality is low, the agency contract is ineffective and inefficient and is the impact of high agency costs. Similarly, earnings quality will determine decisions of capital market participants, a decision plaintiff, the auditor's opinion, the compensation board and analysts (Scott, 2012; Dechow, Patricia, Ge, & Schrand, 2010). In light of this, the presence of opportunistic earning management practices, the audit committee can monitor the

earnings report. However, an effective audit committee is expected to improve the earnings quality to meet a variety of responsibilities, including providing comments and approve accounting policies, reviewing the financial statements and maintain as well as the adequacy of internal control (Hassan, 2013). Therefore, this study examines the effect of audit committee characteristics on earnings quality of listed cement firms in Nigeria. In light of this, the study examines four characteristics of audit committee such as; audit committee size, audit committee independence, audit committee number of meetings and audit committee financial expertises.

1.2 Statement of the Problem

Financial Statements is the major means through which companies communicate to its users its financial results as well as its position. Also, financial analysts cum investors make use of financial statement to make rational decisions. However, the Nigerian Accounting Standards Boards, now Financial Reporting Council, in its statement of accounting standards, states that the objective of financial statements is to provide information about the reporting entity's financial performance and position that are useful for assessing the stewardship of the entity's management and making economic decision. Some of the qualitative characteristics of this information are reliability, relevance and understand ability (Yang & Krishman, 2005). In addition, to achieve quality of financial reporting, a monitoring committee is often put in place to serve as a watchdog in ensuring that companies produce relevant and reliable information which will eventually protect the interest of both existing and prospective investors. Therefore, the most important of these monitoring committees is the audit committee, which is responsible for the review of audited and unaudited financial statements of organizations thereby improving the quality of such information and reducing the

possibilities of unethical or abuse of accounting practices by management when preparing financial statements.

However, despite the existence of this monitoring committee, there were a lot of corporate failures in recent years, for instance, the accounting scandals by Cadbury Nigeria PLC, Intercontinental Bank Plc, Benue Cement Company Gboko, and Oceanic Bank PLC. These have brought about doubt in the minds of shareholders on the credibility and reliability of financial reports. In addition, it was as a result of the foregoing statements that researchers consider it of paramount importance to investigate the effect of this audit committee characteristic on earnings quality. Consequently, the literature on the relationship between audit committee characteristics and earnings quality is inconclusive. Some studies found positive relationships while others found negative associations like: (Beasley & Selterio, 2001, Lin, Li & Yang, 2006). Also, other researchers reported no relationships like; (Nelson & Jamil, 2012). These mixed findings make the direction of these relationships to be illusive, and to the best of my knowledge, there is no study in Nigeria that has attempted to resolve the mixed result particularly in listed cement firms in Nigeria. Therefore, to resolve the mixed findings, the study include financial expertise variable and the recent years that was not capture in the previous studies.

Furthermore, some of the Nigeria studies in this area have ignored the financial expertise variable. This is because some of the previous studies like: (Bala & Kumai, 2015; Ibrahim & Mairafi, 2014) used one or two variables like audit committee size and audit committee meetings. Therefore, the non-use of the financial expertise which is generally believed to play a significant role in the activities of audit committee provided a gap that needed to be filled.

Also, the time period covered by some of the previous studies leaves a gap. The works of Kantudu and Samaila (2015) for instance, covered the period from 2000 to 2011. Hassan and Ahmed (2012) covered the period of 2008 to 2010, and Fodio, Ibikunle and Oba, (2013) covered the period of 2007-2010. Therefore, these periods can be regarded as not too current as a lot of activities have taken place, which include the changes in the current corporate governance code of 2011 by Nigeria Securities and Exchange Commission (NSE). Thus, some of the findings of these studies may not be relied upon in view of the fact that the studies have been taken over by the changes and it may considered too short to enable the generalization of findings. Therefore, this study uses the period of 2006 to 2015 in order to cover the recent activities in the listed cement firms in Nigeria

Furthermore, most studies in this area were either conducted in conglomerate sector or banking sector and none has specifically covered the listed cement firms in Nigeria. In view of the above, there is the need to conduct a study with a view to filling these gaps that exist in the literature. Therefore, the study intends to examine the effect of audit committee characteristics on earning quality of listed cement firms in Nigeria and to capture the four variables that exist in the literature such as; audit committee size, audit committee number of meetings, audit committee independent and audit committee financial expertises which serve as a major problem in the study.

1.3 Research Questions

The study addresses four research questions in line with the research problem. These are:

- i. What is the effect of audit committee size on earnings quality of listed cement firms in Nigeria?
- ii. What is the effect of audit committee independence on earnings quality of listed cement firms in Nigeria?
- iii. What is the effect of audit committee number of meetings on earnings quality of listed cement firms in Nigeria?
- iv. What is the effect of audit committee financial expertise on earning quality of listed cement firms in Nigeria?

1.4 Objectives of the Study

The main objective of this study is to examine the effect of audit committee characteristics on earnings quality in listed cement firms in Nigeria. Thus, the specific objectives are to:

- i. Determine the effect of audit committee size on earnings quality of listed cement firms in Nigeria.
- ii. Assess the effect of audit committee independence on earnings quality of listed cement firms in Nigeria.
- iii. Examine the effect of audit committee number of meetings on earnings quality of listed cement firms in Nigeria.
- iv. Evaluate the effect of audit committee financial expertise on earnings quality of listed cement firms in Nigeria.

1.5 Statement of the Hypotheses

The following hypotheses are drawn from the research objective:

H₀₁: Audit committee size has no significant effect on earnings quality of listed cement firms in Nigeria.

H₀₂: Audit committee independence has no significant effect on earnings quality of listed cement firms in Nigeria.

H₀₃: Audit committee number of meeting has no significant effect on earnings quality of listed cement firms in Nigeria.

H₀₄: Audit committee financial expertise has no significant effect on earnings quality of listed cement firms in Nigeria.

1.6 Significance of the Study

The study is expected to provide useful insight into improving audit committee characteristic on earnings quality in listed cement firms in Nigeria. This study will help ameliorate the level of divergent views in companies and also provide a guide to both the internal and external users of financial statement like: the management, employees, owners, investors, customers, suppliers, creditors, tax authorities, government, general public, feature researchers and academic scholar as it provides evidence on the relationship between audit committee characteristic and earnings quality of listed cement firms in Nigeria. Therefore, the study will be useful to cement companies, as the improvement of some of the recommendation of the study could improve their audit committee and quality of earnings in some of the following ways:

Management: The management of an entity helps to analyze the organization's performance and positions and takes appropriate measures to improve the company results and its quality of earnings. Thus, the study will help to restore the lost confidence of the general public as regard to the decision of audit committee on earnings quality in the companies.

Investors: Investors who invest in the companies, their opinion are usually shaped by a number of factors, including beliefs in the quality of earnings and the decision of audit committee in the financial statement. Also, for analyzing the feasibility of investing in the company, the investors want to make sure that they can earn a reasonable return on their investment before they commit any financial resources to the companies.

Therefore, the findings of this study will contribute to existing body of knowledge and serve as a reference material to postgraduate students who wish to conduct research in a similar field.

1.7 Scope of the Study

The study focuses on the effect of audit committee characteristic on earnings quality of listed cement firms in Nigeria. The scope however, will restrict to four (4) cement firms listed on Nigeria Stock Exchange (NSE) annual report as at 30th November, 2016. The study covers the period of 2006 to 2015 in order to cover the period not captured in the previous study. The companies include: Ashaka Cement PLC, Dangote Cement PLC, Lafarge Cement WAPCO Nigeria PLC and Cement Company of Northern

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept of Audit Committee

Auditing is an independent examination of an expression of opinion on accounts of companies, as presented by management, by a duly appointed auditor, in pursuance of that appointment and in keeping with the relevant legislation and other requirements when in his opinion, the account show: a true and fair view of the state of affairs of the company and the account have been properly prepared in accordance with the provision of the Company and Allied Matters Acts of 1990 as amended to date (Labaran, 2011). Therefore, audit committee is defined as a committee which oversees the financial reporting process (DeZoort, Hermanson, Archambeault & Reed, 2002).

Al-Thuneibat (2006) defined audit committee as a composed of non-executive directors in the establishment. The major goal behind forming the audit committee is to increase auditing quality and questioning of board of directors. Arens, Elder and Beasley (2009) defined audit committee as a group of persons selected from members of the board of directors who are responsible for retaining independence of the auditor. In light of this, audit quality sees as the combined possibility that the external auditor discovers irregularity in financial statements and discloses it to the stakeholders of the financial statements. Thus, both audit committee and quality can minimize agency cost (DeAngelo, 1981). Also, audit committee is described as a committee that comprise of an equal number of directors and representatives of the shareholders of the company (subject to a maximum number of six members). Therefore, any member may nominate a shareholder as a member of the audit committee by giving notice in

writing of such nomination to the secretary of the company at least 21 days before the Annual General Meeting (AGM) s. 359(3) of the CAMA, 1990; as cited in (Ame & Aza, 2014).

However, audit committee is regarded as effective when it prevents earnings management (EM) in an organization (Abbott, Parker & Peters, 2004; Coram, Ferguson & Moroney, 2006). Thus, if the audit committee has insufficient directors, it might influence their effectiveness due to the shortage of directors in fulfilling their duties (Vafeas, 2005). According to CAMA (1990) audit committee is a committee of shareholders and non-executive directors charged with the responsibility of liaising between the external auditors and the Board of Directors (BOD) on one hand, and between management and the external auditors on the other hand. Therefore, audit committees are the most important recent development in the corporate governance structure and are expected to contribute significantly in this respect. Thus, Kalbers and Fogarty (1993) defined audit committee as a committee that possesses qualities such as integrity, dedication, and a thorough understanding of the business of the company.

Furthermore, the board's role is better described as oversight or monitoring, rather than execution. In addition, the audit committee which is more or less an organ of the board has the responsibilities of overseeing the financial reporting and disclosure process; monitoring choice of accounting policies and principles; overseeing hiring, performance and independence of the external auditors; oversight of regulatory compliance, ethics, and whistleblower hotlines; Monitoring the internal control process; overseeing the performance of the internal audit function; discussing risk management policies and practices with management (Wikipedia, 2011). Similarly, audit committee is defined as a board committee with the main responsibility of overseeing financial reporting (Zheng, 2008a). Therefore,

among the elements of corporate governance, audit committee is the key element that strengthens the health of financial reporting (Salehi, Zanjirdar & Zarei, 2012).

Consequently, Karbhari and Mohiuddin (2010) state that audit committee can act as a bridge in such gaps especially in terms of the integrity of the financial statements of an organization. Also, an effective audit committee will therefore help in aligning the interests of management with that of shareholders (Chan & Li, 2008). Thus, a qualitative audit committee has significant positive impact in minimizing agency conflicts and protecting shareholders' interest (Al-matari, 2012). Hence, it is posited that mere formation of audit committee on its own does not necessarily translate into an effective or qualitative monitoring body. Therefore, the activities and effectiveness of such a committee need to be systematically investigated.

Therefore, for the purpose of this study, an audit committee is defined as the body of committee set out to reduce the management incentive problem such as: manipulating financial statements to get higher bonuses. This is because effective audit committees enhance the quality and credibility of financial statements. Thus, the audit committees are the committee of shareholders and non-executive directors that monitor the activities of management and board of directors of an entity and make decision on financial report.

2.1.2 Concept of Earnings Quality

Investors' are concerns with earnings quality increased during the last decade after many international companies announced non-authentic and temporary earnings as part of their quarterly reports. Thus, investors became more cautious in considering net earnings. Qaraqish (2009) defines earnings quality as the investor's ability to predict future abnormal earnings depending on recent data. Bagava (2006) believes that earnings quality is considered as an

important factor in the financial statement and is used as guidance to decision making. Depending on earnings of low quality leads to an inappropriate management of fortune (Schipper & Vincent, 2003). Understanding earnings quality plays an important role in the process of financial analysis; earnings of high quality help financial analysts in analyzing three basic sides of information.

Earning quality is defined as the ability of reported earnings (income) to predict a company's earnings (wikipedia, 2016). In addition, quality of earnings is refers to as the amount of earnings attributable to higher sales or lower costs rather than artificial profits created by accounting anomalies such as inflation of inventory. Also, earning quality is defined as when a return on equity is a good measure of the internal rate of return on the company's current portfolio of projects (Dechow & Schrand, 2004). However, earning quality is regards as "an investors concerned with earnings management and a demand for earnings quality for the purpose of enhancing financial statement quality" (Bedard & Johnstone, 2004). Therefore, certain aspects, like discretionary accruals, have received much attention as an important indicator of earnings quality.

Furthermore, earnings quality is defined as when the earnings number accurately annuitizes the intrinsic value of the firm (Black, Beaver, Ohlson & Zhang; study as cited in Dechow & Schrand, 2004). Similarly, Bergstresser and Philippon (2006) defined earnings management as the management action taken in making profit and this tends to reflect the interests of management rather than an actual picture of company performance. In addition, Cheng and Warfield (2010) state that earnings management is of two aspects, first, managers see it as opportunistic behavior to maximize utility in dealing with compensation contracts, debt contracts and political cost (opportunistic earnings management). Secondly, earnings

management is viewed as the perspective of efficient contracting (efficient earnings management), in which it provides managers with the flexibility to protect themselves and the company to anticipate the unexpected events to gain the parties involved in the contract. Thus, earnings management is more likely to occur when a company is usually unable to meet investors' expectations or in periods of volatile earnings (Healy, 1999).

However, Kinnunen and Koskeka (2003) regard earning quality as the managers mislead stakeholders about the economic performance of their company by trying to produce financial statements which do not provide a time and fair representation of the company's value. Therefore, Iturriaga and Hoffmann (2005) are of the opinion that earnings management may arise as a consequence of agency problem. This is where managers could manage earnings to window dress financial statements with the aim of improving their position, obscuring facts that stakeholders ought to know or influencing contractual outcomes that depend on reported accounting numbers. Therefore, for the purpose of this study, earnings quality is the honest expression of the reported profit. This is because a high earnings quality shows the usefulness of profit information for decision-making by the users and also it is more adjusted with economic profit. Thus, earnings quality is defined as income effectiveness of the company financial report. Also, absents of management interest (agency problem) can boast the quality of earnings and the investors' confidence are protected. Therefore, earnings quality contributes to the firm's growth.

2.2 Empirical Review

Bala and Kumai (2015) investigated the relationship between audit committee characteristics and earnings quality of listed food and beverages firms in Nigeria for the period of 2007 to 2014. The study uses OLS multiple regression model to analyze the data and found that there

is a significant association between audit committee characteristics and earnings quality of the firms. The study recommended that listed food and beverages firms in Nigeria should strictly comply with the provision of Companies and Allied Matters Act (CAMA) and SEC Code of Corporate Governance on the issues regarding Audit Committees of having six members, equally represented by three shareholders and three directors.

Ibrahim and Mairafi (2014) examined the effect of audit committee attributes and earnings quality of listed cement firms in Nigeria. The study used a sample of four (4) cement firms in Nigeria for the period of 2008 to 2012 with censoring sampling techniques and employed a modified Jones model by Dechow, Sloan and Sweeney (1995) to proxy earnings quality. Also, the study used OLS multiple regression techniques and found that, audit committee composition and meeting have a positive, strong and significant influence on the quality of earnings. On the other hand, audit committee size has a negative, strong and significant effect on quality of earnings. The study recommend that, the number of outside members of the audit committee and number of time the committee meets in a year should be increased as it will have positive influence on the quality of earnings.

Godouei and Abedini (2015) examined the relationship between the audit committee on earnings quality of the company listed on the Tehran Stock Exchange. The study used Dichev model, descriptive and inferential statistical to analyze the data for the period of 2006 to 2013. The study found that the activity (number of audit) has no significant relationship with earnings quality. Similarly, Siam, Laili and Khairi (2015) investigated the role of audit committee characteristics on earnings management in Jordan. The study used a sample of all industrial companies listed on the Amman Stock Exchange (ASE) and found that the firms

with effective characteristics of audit committee are less likely to allow earnings management because opportunistic earning's cause uncertainty about the economic value of a firm.

Hamdan, Mushtaha and Al-Sartawi (2013) investigated the relationship between audit committee characteristics and earnings management. The study used a sample of fifty (50) industrial companies listed on the Amman Stock Exchange (ASE) for the period of 2004 to 2009. The study used pooled data regression for the two tests (Ordinary Least Squares [OLS] and Binary Legit) and found that there was an influence of some standard characteristics of the audit committee on earnings quality. Also, Lennox, Wu and Zhang (2015) examined the effect of audit quality and earnings quality of listed companies in China for the period of 2006 to 2012. The study used descriptive statistic and a modified Jones model by Dechow et al. (1995) to proxy earnings quality and found that adjustment cause earning to become smoothers and more persistent with higher quality. It also, has a negative effect on signed accruals than absolute accruals.

Kuang (2007) examined the association between audit committee characteristics and earnings management in New Zealand. The study used a sample of 393 firms listed on the New Zealand Stock Exchange (NZX) for the period of 2004 to 2005. The used modified Jones model by Dechow et al. (1995) to proxy earnings quality and found that an audit committee of independent directors help to reduce the likelihood of earnings management. Furthermore, Yassin, Abdallah and Al-Ibbini (n.d) examined the determinant of earnings quality in Jordan and found that the earnings quality determinants do not have the same effect or relationship with all the proxies that measure earnings quality.

Kantudu and Samaila (2015) examined the impact of monitoring audit committee characteristics on financial reporting quality of listed oil marketing firms in Nigeria. The study used a sample of nine (9) listed oil firms for the period of 2000 to 2011. Also, the study

employed OLS multiple regression to analyzed the data and found that power separation, independent directors, managerial shareholdings and independent audit committee are significantly implying in monitoring the financial reporting quality. It was recommended that the appointment of independent directors on the companies' board should be based on the previous records of those directors in term of performance rather than emphasizing on the proportion to total number of directors on the board.

Mishra and Malhotra (2016) examined the effectiveness of audit committees in constraining earnings management in Indian companies. The study employed a sample of one hundred and thirty (130) companies listed on the Bombay Stock Exchange (BSE) for the period of 2013 to 2015. The study used correlations, multivariate linear regression, and logistic regression models to analysis the data. The study found that there is a significant impact of audit committee size, multiple directorships of audit committee members and frequency of audit committee meetings on earnings quality and other audit committee characteristics are not found to have a significant impact on the level of earnings management.

Tian and Qi (2012) investigated the influence of audit committees' personal characteristics on the firm's earnings management behavior in China's publicly traded firms for the period of 2004 to 2010. The study employed the cross-sectional version of the modified Jones model (1991) by (Defond & iambalvo, 1994). The study found that audit committees' several personal characteristics, such as age, gender, education level, and working experience, are associated with earnings management, which in turn may affect the quality of financial reporting.

Piyawiboon (2015) investigated the relationships between the audit quality and the earnings quality as well as between the audit committee board and the earning quality of the listed four (4) industrial firms groups in the Stock Exchange of Thailand (SET) for the period 2009 to

2013. The study used a Modified Jones Model to measure earnings quality and found that the auditor firm size has a negative correlation with the discretionary accruals. Also, there is a positive correlation in changing from the smaller audit companies to the larger ones. Thus, for the auditors' opinion, it was found that when the auditors gave a remark on the going concern, there was a negative correlation with the discretionary accrual and it resulted in the good earnings quality.

Al-Matari, Al-Swidi and Fadzil (2012) examined the relationship between the internal corporate governance mechanism related to the board of directors, the audit committee characteristics and the performance of the companies listed in the Saudi Arable Stock Exchange (TADAWL) for the period of 2010. The study uses a sample of one hundred and thirty five (135). Also, the study adopt multiple regression model to analyze the data and found that there is no significant relationship between the board of directors, audit committee characteristics and firm performance except the audit committee size but in the opposite direction to the expectation.

Al-Rassas and Kamardin (2015) examined the association between internal and external audit attributes, audit committee characteristics, ownership concentration and discretionary accruals. The study used a sample of five hundred and eight (508) firms listed on the Malaysia main market from 2009 to 2012. Also, the study uses two measures of discretionary accruals, the Modified Jones model by Dechow et al. (1995); and extended Modified Jones Model by (Yoon, Miller & Jiraporn, 2006). The study found that outsourcing internal audit function, investment in internal audit function and external audit fees are related to higher earnings quality. However, large audit committee size, more frequent audit committee

meetings, having a senior or former audit partner as audit committee chairman and ownership concentration are associated with lower earnings quality.

Madawaki (2012) examined the impact of audit committee characteristics on financial reporting quality of listed companies in Nigerian. The study used Dechow and Dichev (2002) model and found that there was some evidence that earnings quality significantly reduced in the years after audit committee formation, thus providing some support for the notion that the formation of the audit committee improved financial reporting quality.

However, Aryan (2015) examined the role of audit committee and external audit in enhancing companies' profitability in Jordan for the period of 2009 to 2014 with a sample of sixty nine (69) industrial sectors. The study used multiple regressions to analyze the data and found that there is a positive relationship between audit committee meeting, audit committee size and companies profitability. Also, Ayemere and Elijah (2015) examined the audit committee attributes on earning management in Nigeria. The study uses a sample of fifty (50) companies for the period of 2006 to 2013. Also, the study employed a fixed effects regression to analyze the data and found that audit committee characteristics have a constraining effect on earnings management.

Okaro and Okafor (2015) assessed the states of financial expertise of audit committee chairmen in the Nigerian Capital Market for the period of 2012 to 2013. The study uses Taro Yamani formula with sample of eighty four (84) companies and found that forty seven (47) out of the eighty four (84) companies had either a member of Institute of Chartered Accountants of Nigeria (ICAN) or members of Association of National Accountants of Nigeria (ANAN) at the chair of the audit committee. The study recommended that Financial Reporting Council of Nigeria (FRC) should go ahead and mandate financial expertise of audit committee chairmen in Nigeria.

Modum, Ugwoke and Onyeonu (2013) examined the effect of audit committee characteristics on earnings per share of quoted companies in Nigerian Stock Exchange for the period of 2006 to 2012. The study used regression analysis to analyze the data and found that frequency of meetings, audit size, regularity of attendance to meetings and number of non-executive directors; in that order make greater contribution to earnings per share of quoted companies on the Nigerian Stock Exchange.

Fodio, Ibikunle and Oba (2013) investigated the effect of corporate governance mechanisms on reported earnings quality of listed insurance companies in Nigeria for the period of 2007 to 2010. The study used twenty five (25) quoted insurance firms and multiple regressions were employed to analysis the data and found that board size, board independence and audit committee size are negatively and significantly associated with earnings management while audit committee independence and independent external audit have positive relationship with discretionary accruals. Thus, the study recommends that the National Insurance Commission (NAICOM) 2009 code of corporate governance regulation on board size and board independence be made stringent and sustained. Also, that future research works should investigate other governance dynamics such as ownership concentration, audit committee diligence and institutional investors amongst others in other sectors of the Nigerian economy.

Kibiya, Ahmad and Amran (2016) investigated the effect of audit committee characteristics on the quality of financial reporting of listed firms in Nigerian for the period 2010 to 2014. The study employed multivariate regression and McNicholas (2002) model to analysis the data with a sample of 101 and found that control variables; company age and company size

are statistically significant. Also, audit committee share ownership, and financial expertise are positive and statistically significant.

Hassan and Farouk (2014) investigated the firm attributes and earnings quality of listed oil and gas companies in Nigeria for the period of 2007 to 2011. The study used a sample of seven (7) firms and employed the modified Jones model by Dechow et al. (1995) to proxy earnings quality. The study adopts multiple panel regression techniques to analyze the data. The findings reveal that leverage, liquidity and firm growth has a significant positive impact on earnings quality while firm size, institutional ownership and profitability have a significant but negative influence on earnings quality of listed oil and gas companies in Nigeria.

Miko and Kamardin (2014) examined the effectiveness of the audit committee and audit quality in preventing earning management in the pre and post- code of Nigeria corporate governors 2011. The study used multiple regressions to measure the association between audit committee, audit quality and discretionary accruals in both periods. Also, the study employed T-test for independent sample to compare the results of the pre- and post- code 2011 periods.

Chen and Yuan (2004) investigated the association between earnings management and capital resource allocation, and found that China's listed firms engage in earnings management to satisfy the requirements of seasoned equity offerings policy. Furthermore, Haw, Qi, Wu and Wu (2005) examined whether Chinese listed firms manage earnings to meet regulatory benchmarks, and found that managers execute transactions involving below-the-line items and use income-increasing accounting accruals to meet regulatory ROE targets for stock

rights offerings. Also, Chen, Lee and Li (2008) investigate whether Chinese local governments help listed companies in their jurisdictions to engage in earnings management and that local governments provide subsidies to help listed firms boost their earnings above the regulatory threshold of rights offering and delisting. Therefore, the comprehensive meta-analysis found significant associations between earnings quality and various measures of corporate governance effectiveness and audit quality.

However, a growing body of literature begins to focus on the effects of audit committee characteristics on earnings management. Klein (2002) finds that the independence of audit committee is negatively related to earnings management. Xie, Davidson and DaDalt (2003); Yang and Krishnan (2005) found that the frequency of audit committee meeting is negatively related to current discretionary accruals. Abbott, Parker and Peters (2004) found that the independence and meeting frequency of the audit committee exhibit a significant and negative association with the occurrence of restatement. Similarly, Anderson, Mansi and Reeb (2004); and Lin, Li and Yang (2006) found that audit committee size, independence, and meeting frequency are positively related to the quality of corporate financial reporting.

Erhardt, Werbel and Shrader (2003) examined the relationship between board gender diversity and financial performance and found that board gender diversity is positively related to profitability. Furthermore, Xuan (2009); Bertrand and Schoar (2003) found that Chief Executive Officer (CEO) and other top managers have large personal-specific heterogeneity in their management styles, and these personal-specific styles explain a substantial portion of the variations in firms' capital structures, investment decisions and organizational structures. Also, Daboub, Rasheed, Priem and Gray (1995) analyze the relationships between management characteristics and the firm's illegal activity and found that management

characteristics, such as engineering, work experience, age, and formal business education, are associated with the firm's illegal activity.

2.2.1 Audit Committee Size and Earnings Quality

The audit committee size is referred to as the number of directors appointed to be members in the audit committee, in this regard there could be small, medium and large audit committees. Therefore, most of the regulations including that of Nigeria require the provision of equal number of shareholders and directors to run the audit committee. Also, s. 359(6) of the CAMA requires every public company to have an audit committee which shall have a maximum of six members of equal representation by three shareholders and three directors. There are different views in literature as to the relationship between audit committee size and earnings management. However, Nelson and Jamil (2011) examined audit committees and financial reporting quality following the government transformation program in Malaysia. The study uses the sample of twenty (20) Firms for the period of 2003 to 2009 and adopted Dechow and Dichev (2002) model to measure earnings quality and found a positive relationship between audit committee size and earnings management.

However, Sharma and Kuang (2013) examined the voluntary audit committee characteristics incentives and earnings management in New Zealand. The study used a sample of one hundred and ninety four (194) firms listed in New Zealand Stock Exchange Market for the period 2004. The study adopted performance adjusted modified Jones model in measuring discretionary accruals and found a significant positive relationship between audit committee size and earnings management.

Furthermore, Yang and Krishman (2005) analyzed the relationship between audit committees and earnings management in US using a sample of eight hundred and ninety six (896) firms for the period 1996 to 2000. The study found that audit committee size has negative significant relationship with earnings management. Also, Beasley and Salterio (2001) found that as audit committee size increases, firms are more likely to include outside directors on the committee beyond the mandated minimum requirements, which enhances audit effectiveness. Therefore, audit committee size constrains earnings management.

Consequently, a study conducted in Nigeria on the relationship between audit committee size and earnings quality like; Fodio, Ibikunle and Oba (2013) investigated corporate governance mechanisms and reported earnings quality in listed Nigerian Insurance Firms with a sample of twenty five (25) companies for the period 2007 to 2010 the study used discretionary accruals, measured by modified Jones model and found that audit committee size is negatively and significantly associated with earnings management. Therefore, Leslie and Okoeguale (2013) evaluate the implication of earnings management determinants in the banking industry with a sample of eighteen (18) banks for the period 2005 to 2010. The study used Pearson product moment correction as technique for analysis and found that audit committee size is negatively correlated with earnings management.

2.2.2 Audit Committee Independence and Earnings Quality

The role of the audit committee is to certify the quality of financial reporting and contributing to minimizing earnings manipulations. Also, the act imposes obligations on a fully independent audit committee to be in charge of observing the financial reporting that the audit committee has not done previously. Therefore, for the audit committee to be fully independent and effective committee, the majority of the members must be independent

directors or non-executive directors (SEC Code, 2011). Post-SOX empirical studies have found that an effective audit committee is positively associated with high-quality of financial reports.

However, Chang and Sun (2009) found that the markets react positively to the disclosure of a fully independent audit committee after SOX. Carcello, Hollingsworth, Klein and Neal (2006) found that independent audit committee members with financial expertise has better effective in mitigating earnings management. Petra (2007) found no association between the earnings informativeness and independent audit committees. Sun (2013) found a negative and significant on the interaction of audit committee independence and audit industry specialization. Fodio et al. (2013) revealed that audit committee independence has a positive association with discretionary accruals, which indicates that these variables might not decrease the extent of earnings manipulation by managers.

However, prior literature provides divergent opinion on the relationship between audit committee independence and earnings management, but majority of these views concluded that an independent audit committee provides effective monitoring of financial statements which was provided by the management and ensure credibility of financial reporting. This is inconsistent with the findings of Nelson and Jamil (2012) that showed that the magnitude of audit committee independence influences earnings management as a proxy of financial reporting quality. Also, several studies support the negative association between audit committee independence and earnings management which include among others; Chtourou, Bédard and Courteau (2001) investigated corporate governance and earnings management using a sample of two (2) groups of US firms, in the year 1996 and found that income increasing earnings management is negatively associated with a larger proportion of outside

members who are not managers in other firms. Meca and Ballesta (2009) examined the effect of corporate governance and earnings management. The study uses Meta analytic technique and found that audit committee independence can constrain earnings management thereby improving investors' confidence.

Furthermore, in another development, other researchers provided no evidence to support the relationship between audit committee independence and earning managements. Baker and Cotter (2009) found no significant association between audit committee independence and earnings management. Also, in contrary to most findings of prior researches, in Nigeria, Shah, Butt and Hassan (2009) evaluate the effect of corporate governance and earnings management in Pakistani with a sample of fifty three (53) listed companies for the period of 2006. The study uses modified Jones model to measure the earnings management and found a positive association between audit committee independence and discretionary accruals.

Therefore, for the purpose of this study, in line with the above literature, it can be generally said that audit committee independence influences earnings management but the mix of opinion may be as a result of other issues that may negatively affect a general conclusion on the direction of this relationship, This may create a vacuum for a single period of time with two group of companies cannot be used for generalization. Therefore, it requires additional number of years and companies to see how the likely changes will be, and this is the gap this study intends to find among others.

The independent of audit committee is often considered as an essential characteristic that influenced the committee's effectiveness in overseeing the financial reporting process. It can be argued that independent directors are in the best position to serve as active overseers of the financial reporting process thereby having a greater ability to withstand pressure from

management to manipulate earnings (Klein, 2002). Therefore, audit committee independence has been found to be significantly associated with measures of earnings quality in several prior studies (Bedard, Chtourou & Courteau, 2004; Vander-Zahu & Tower, 2004; Davidson, Goodwin-Stewart & Kent, 2005). However, within the studies, there are some inconsistencies in the result like; Klein (2002) found no evidence of a significant association between an audit committee comprised solely of independent directors and her measures of earnings management. Also, Bedard et al. (2004) found the same measure of audit committee independence is negatively associated with the likely hood of aggressive earnings management.

Furthermore, Carcello and Neal (2003) focused on the relationship between audit committee and disclosure quality. The study used the external audit or report, size of audit committee and board of directors, as a control variable. The most important findings of the study were; there is a significant positive relationship between the percentage of the independent members of the audit committee and the optimistic disclosure about the financial status of the company. Therefore, with regard to the status of the company financial note and administrative discussion and analysis, there is a statistical relation between the science of both the board of directors, audit committee independence and financial reports quality.

2.2.3 Audit Committee Financial Expertise and Earnings Quality

Financial reporting process comprises knowledge of technical rules and accounting standards. Therefore, the directors who will monitor the process with sophisticated financial background are more likely to be successful in constraining earnings management. Previous studies such as Bedard, Chtourou and Courteau (2004); Carcello et al. (2006) found that the presence of at least one member with financial expertise is associated with a lower possibility of destructive

earnings management. Defond, Hann and Hu (2005) in their study related to the markets show favouritism only to financial experts with an accounting background or expertise on the audit committee. Also, Akhigbe and Martin (2006) found a favourable valuation effect of the audit committee members with financial expertise in the Pre-SOX financial services industry.

However, Dhaliwal, Naiker, Zealand, Navissi, East and Author (2007) investigate three types of financial experts (accounting, finance, and supervisory) in the audit committee and found a positive relationship between accruals quality and accounting experts. Therefore, Chang and Sun (2009) found that the market reacts positively to financial experts on audit committees after SOX. Thus, Marra, Mazzola and Prencipe (2011) found that the financial expertise of the audit committee has a negative relationship with earnings management. It's required a high degree of financial sophistication for audit committee member to improve audit committee's effectiveness in monitoring discretionary accruals.

Furthermore, most of the global financial regulations mandate that at least one member of the audit committee should be a financial expert. Also, the provision of CAMA s. 359 (3) and (4) required that at least one board member of the audit committee should be financially literate. Therefore, apart from regulatory requirements, the existing literature also confirms the following: Beasley, Carcello, Hermanson and Neal (2009) documented that audit committees also face incentives to effectively monitor managers in form of legal liability in reputational work. As such, financial expertise is directly linked with better financial reporting quality (Krishnan & Visvanathan, 2008). Similarly, Badolato, Denelson and Ege (2014) examined the relationship between audit committee financial expertise and earnings management and found that audit committee with both financial expertise and high relative status are more effective at determining earnings management as measured by accounting irregularities and

abnormal accruals. The intuition is that higher levels of financial expertise are beneficial to audit committee.

Consequently, Beasley and Salterio (2001) found that the accounting experience of audit committee members as well as their knowledge of auditing are positively associated with the likelihood that they will support auditors in an auditor- corporate management disputes. This means that financial competence of audit committee members decreases the likelihood of earnings management. Also, Chtourou, Bédard and Courteau (2001) examined corporate governance mechanism and earnings management and found that the presence of at least one audit committee member with financial expertise is negatively associated with the levels of earnings management. In addition, Sharma and Kuang (2013) investigated on the voluntary audit committee characteristics, incentives and aggressive earnings management in New Zealand and utilized a sample of 94 firms listed on the New Zealand Stock Exchange for the period of 2004 to 2005. The study uses performance modified Jones model to measure discretionary accruals and found that audit committee financial expertise is associated with a lower likelihood of aggressive earnings management. This means that the impact of financial literacy could be influenced by the independence of director as indicated above.

Therefore, in lieu of the above findings, it may be argued that the work of Kuang and Sharma (2013) on voluntary audit committee's characteristics, and aggressive earnings management in New Zealand used only two years 2004 and 2005. Thus, the time frame is too short and the study needs to be revisited by including other periods that were not captured.

2.2.4 Audit Committee Number of Meetings and Earnings Quality

The audit committee meeting is essential in order to effectively perform its oversight function and monitor management's performance. Thus, Collier and Gregory (1999) evaluate the audit committee activity and agency cost in UK. The study used a sample from UK major companies listed on the London Stock Exchange for the year 1991 and found that the frequency of audit meetings is assumed to increase the effectiveness of monitoring. This indicates that the more often an audit committee meets the more likely it is to have fewer financial problems (Menon & Williams, 1994).

However, Pricewaterhouse (1993) found that audit committees should meet at least four times a year and make provisions for special meetings when necessary. Also, Beasley (1996) recommends that for audit committee to fulfil their monitoring responsibility effectively, they should meet at least once to review interim and annual SEC filings. Like other audit committees attributes, different opinions also exist in literature as to the relationship between audit committee meetings and earnings management. Therefore, Xie, Davidson and Dadalt (2003) found that the frequency of audit committee meetings is negatively associated to current discretionary accruals. Similarly, Chtourou et al. (2001) found that meeting more than twice a year is positively associated with earnings management.

Therefore, for the purpose of this study, considering the recommendations of practitioners like PriceWaterHouse (1993); Beasley (1996); and Xie et al. (2001), several existing literatures provide evidence to support insignificant relationships between audit committee meetings and earnings management. These mix results are required to be revisited so as to be able to identify the actual effect of these variables (audit committee meetings and earning quality).

2.3 Theoretical Framework

The audit committee effectiveness helps to prevent earnings management (EM) in organizations. Therefore, audit committee is a committee that monitors the financial reporting process of an entity. However, the theory underpinned this study is agency theory by (Hayes, Dassen, Schilder & Wallap, 2005).

Agency Theory: This study adopted agency theory to explain the relationship between audit committee and earnings quality of listed building materials firms in Nigeria. However, the theoretical support for the formation of audit committees can be found in agency theory. According to agency theory, shareholders and debt holders act as principals who seek to obtain maximum utility from management acting as their agent. Thus, assuming economic self-interest, there is the potential for opportunistic actions by the agent, which are to the detriment of the principal. Due to the separation between ownership and management, the shareholders are unable to directly observe the actions of management (Jensen & Meckling, 1976).

Furthermore, a system of corporate governance controls is established on the shareholders' behalf to discourage managers from pursuing objectives that do not maximize shareholder wealth. These controls are aimed at either aligning managers' and shareholders' incentives or limiting the opportunistic activities of managers (Dellaportas, Gibson, Alagiah, Hutchinson, Leung & Van, 2005). Thus, audit committees are one example of such a corporate governance control. Therefore, these committees are an important part of the decision control system for the internal monitoring by boards of directors (Kalbers & Fogarty, 1998). Bradbury (1990) argued that audit committees will be voluntarily employed to improve the quality of information flows between principal and agent where there are high agency costs.

Audit committees have been widely recommended as an important means of improving the quality of corporate financial reporting practices.

However, the theory essentially acknowledges that different parties involved in a given situation with same given goal will have different motivations, and these differences can manifest in divergent ways. This means that there will always be partial goal conflict among parties, because efficiency is inseparable from effectiveness, and thus information will always be somewhat asymmetric between principal and agent. Thus, agency theory is therefore concerned with contractual relationship between two or more persons called the agents to perform some services on behalf of the principal. Both the agents and the principal are presumed to have entered into mutual agreement or contract motivated solely by self interest and the principal delegates' decision making responsibility to agents (Chowdhury, 2004). Similarly, in considering earnings management practice, agency theory explains clearly the existence of the incentive for management to use earnings management. Therefore, Salah (2010); as cited in Abdul, Johari, Sharifa and Abd Rahman (2012) suggests that, management could use earnings to mislead shareholders by showing a different image of the company's earnings.

Therefore, for the purpose of this study, agency theory is adopted due to the fact that it elucidates the relationship between the agents (management) and the principal (shareholders). In the same vein, audit committee, apart from serving as monetary measures, equally represents the shareholders who are the principal since their composition constitutes equal number of shareholders and directors. However, the directors act on behalf of the shareholders while the management (agents) is responsible for the preparation and fair presentation of financial statements in accordance with Nigerian Statement of Accounting

Standard (SAS). They also assumed to make sure that the financial statements are free from material misstatement, whether due to fraud or error. This at the tail end is subject to confirmation, review and verification by the audit committee in order to make sure that the accounting policies are in line with the legal requirements and ethical practices. Therefore agency theory is found to be relevant because it explains the audit committee which functions as a monitoring mechanism to reduce agency cost.

2.4 Summary

The chapter presents the concept of audit committee characteristic on earning quality of listed cement firms in Nigeria. However, audit committee is a committee which oversees the financial reporting process. Also, audit committee is a committee of shareholders and non-executive directors that are in charged with the responsibility of liaising between the external auditors and the Board of Directors (BoD), and between management and the external auditors. In light of this, audit committee helps to prevent earnings management (EM) in an organization. While, earnings quality is defined as an income effectiveness of the company financial report. Therefore, the absent of management interest (agency problem) can boast the quality of earnings and the investors' confidence are protected.

Furthermore, on the empirical literature, opinions are divided with evidence in support and against the effect of audit committee characteristic on earnings quality. Therefore, most of the study used a modified Jones model by Dechow et al. (1995) to proxy earnings quality, OLS multiple regression and their time frame are too short. Thus, the study needs to be revisited by including other periods that were not captured. Furthermore, the Nigeria studies in this area have ignored the financial expertise variable. This is because some of the previous studies like: (fodio et al., 2013; Ibrahim & Mairafi, 2014) uses one or two variables like audit

committee size and audit committee meetings. Therefore, the non-use of the financial expertise which is generally believed to play a significant role in the activities of audit committee provided a gap that needed to be filled. Also, the study was restricted to one particular firm like: oil sectors, insurance companies, consumer goods companies, without looking at the listed cement firms in Nigeria. In lieu of the above, the study intends to fill this gap.

The theoretical framework for the study is the agency theory originated by (Hayes et al., 2005). The reason for choosing this theory is because they are suitable for the study. Therefore, the agency theory is concerned with contractual relationship between two or more persons called the agents to perform some services on behalf of the principal that is (audit committee and management). Thus, in considering earnings management practice, agency theory explains clearly the existence of the incentive for management to use earnings management.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research design considered most appropriate for the study is ex-post facto design. They examine whether one or more pre-existing conditions could possibly have caused subsequent differences in groups of subjects. Also, it is non experimental designs that are used to investigate causal relationships (Ojo, 2003).

3.2 Population, Sample and Sampling Techniques

The population of this study consists of all the four (4) cement firms listed on the Nigeria Stock Exchange (NSE) annual report as at 30th November, 2016. The study covers the period of 2006 to 2015. The companies include: Ashaka Cement PLC, Dangote Cement PLC, Lafarge Cement WAPCO Nigeria PLC and Cement Company of Northern Nigeria. Therefore, censoring sampling technique was employed on the study.

3.3 Method of Data Collection

The data collection was base on secondary source due to the nature of the study. The data was extracted from Nigeria Stock Exchange (NSE) annual audited report for the period of 2006 to 2015 as a content analysis which includes; audit committee size, audit committee number of meeting, audit committee independence and audit committee financial expertise. The reason for using this secondary source is to ensure that there is no manipulation of information due to the nature of the study and also, to be in line with previous studies like; Ibrahim and Mairafi, (2014).

3.4 Techniques for Data Analysis and Model Specification

The data were analyzed by use of Panel regression model. Also, earnings quality was proxy using a modify Jones model by Dechow et al. (1995) while audit committee characteristic was proxy with audit committee size, audit committee independence, audit committee number of meetings and audit committee financial expertise to be in line with previous study like; Ibrahim and Mairafi, 2014 using E-view version nine (9) for windows. The study hypotheses are tested at 5% level of significance (95% confidence interval).

3.4.1 Variables of Measurement

Earnings Quality Measurement using discretionary accrual of modified Jones model by (Dechow et al., 1995).

$$DACC_{it} = TACC_{it}/TA_{it-1} - [\alpha_1 (1/TA_{it-1}) + \alpha_2 ((\Delta REV_{it} - REC_{it})/TA_{it-1}) + \alpha_3 (PPE_{it}/TA_{it-1})].$$

Therefore, Total Accrual_{it} = NI-CFO

Where:

NI = Net operating income

CFO = Cash flow from operating activities

α = Constant

B = Beta

REV_{it} = Revenues in year t less revenues of firm i in year t -1

REC_{it} = Receivables in year t less receivables of firm i in year t -1

PPE_{it} = Gross property plant and equipment of firm i in year t

TA_{it} = Total Asset

TAC_{it} = Total Accruals = prediction error.

i= number of sampled across-sectional firms

t= time period of the sampled companies.

Therefore, the study uses the absolute value of residuals from the first regression to represent Earnings Quality.

Explanatory Variable of Measurement

Variable	Nature of Variable	Proxy(ies)	Measurement
Earnings Quality	Dependent Variable	Discretionary accruals	Modified Jones (1995)
Audit Committee Characteristics	Independent Variable	Audit Committee Size	Number of Audit Committee members
		Audit Committee independent	Number of non-executive directors in the Audit Committee.
		Audit Committee number of Meetings	The number of times Audit Committee holding meeting in a year
		Audit Committee Financial Expertise	Proportion of audit committee members with financial expertise (financial knowledge) in the audit committee to total number of the audit committee

Data Source: SEC (2011).

3.4.2 Model Specification

In view of the above, the various hypothesis and variables were combined into a function relation to explain the relationship between Audit Committee characteristic and Earnings Quality. The empirical models for the study are:

$$DACC_{it} = \alpha + \beta_1 ACS_{it} + \beta_2 ACIND_{it} + \beta_3 ACM_{it} + \beta_4 ACFEP_{it} + \mu_{it}$$

Where:

DACC = Discretionary Accruals

ACS = Audit Committee Size

ACIND = Audit Committee Independence

ACM = Audit Committee number of Meeting

ACFEP = Audit Committee Financial Expertise

$\beta_1 - \beta_4$ = Coefficient of Explanatory Variables

α = Constant or Intercept

μ = Error Term

3.5 Justification of Methods

The study review the effect of audit committee characteristic on earnings quality of listed cement firms in Nigeria for the period of ten (10) years; the choice of these ten (10) years is to include the period that was not capture by previous study and some of this company was incorporated from 2006. Also, it will enable the researcher gain insight on the study and to be in line with previous researchers like; (Ibrahim & Mairafi, 2014).

The ex-post facto research design is the most appropriate because the subject in the sample comes to the researcher as it were and it was not practicable for the researcher to manipulate them or control their behaviour. Therefore, secondary data is suitable for the study due to the

nature of information required for analysis. Censoring sampling technique was employed on the study, since the study uses the entire population of four (4) listed cement firms in Nigeria Stock Exchange (NSE) as at 30th November, 2016.

Panel regression tools of analysis and a modified Jones model by Dechow et al. (1995) was used to measure the relationship between audit characteristic and earning quality in other to be in line with previous researchers like; (Ibrahim & Mairafi, 2014). Therefore, the justification for using this method is to remove any form of subjectivity in the result as a result of weakness in any of the models. By using this method, cases of inadequacy of model will be covered.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

The data for this study is presented in appendix A. It also covers both the presentation and analysis of data collected from the sample of the study, listed cement firms in Nigeria. This includes: Ashaka Cement, Cement Company of Northern Nigerian, Dangote Cement, and Lafarge Cement WAPCO for the year 2006 to 2015.

Data on Discretionary Accrual:

SLOAN: Total Accrual Scaled by Total Asset

ASTIV: $1/\text{Total Asset}$

JREVT: Change in Revenue/Total Asset

JRRET: Change in Revenue – Change in Receivables/Total Asset

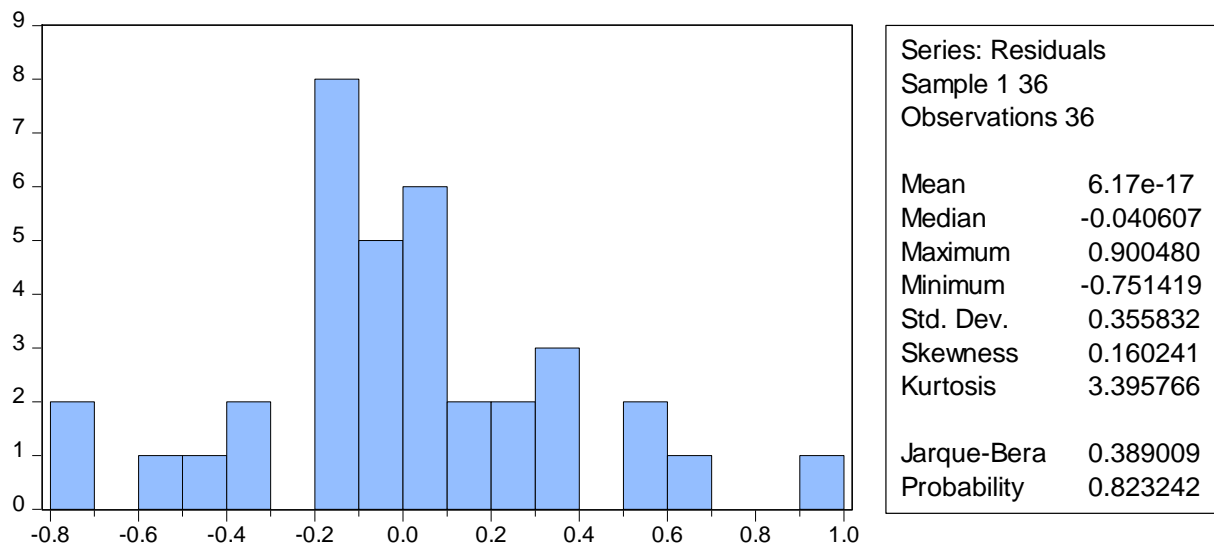
JPPET: Property, Plant and Equipment/Total Asset

TASST: Total Asset.

4.2 Data Analysis and Result

The cross sectional panel data are presented in tables and analysed accordingly. Residuals Diagnostic tests were conducted as well as the test of the panel regression model. The study hypotheses are tested at 5% level of significance (95% confidence interval).

4.2.1 Histogram Test of Normality



The histogram indicates that the data have bell-shape denoting that, the data are normal. This is corroborated by the Jarque-Berra Statistic of 0.389009 and its corresponding P-value of 0.823242 which is greater than the t-value of 0.05.

Table 4.2.2 Correlation Analysis

Covariance Analysis: Ordinary
Date: 04/18/17 Time: 15:21
Sample: 1 36
Included observations: 36

Covariance Correlation	DACC	ACSIZ	ACIND	ACM	EXPERT
DACC	0.128655 1.000000				
ACSIZ	-0.001715 -0.015217	0.098765 1.000000			
ACIND	0.000855 0.068894	-0.006790 -0.624758	0.001196 1.000000		
ACM	0.033988 0.119201	0.027778 0.111187	0.007639 0.277861	0.631944 1.000000	
EXPERT	0.028330 0.167546	-0.009259 -0.062500	0.001852 0.113592	-0.027778 -0.074125	0.222222 1.000000

The correlation result indicates negative association between ACSIZ and DACC of quoted Cement firms in Nigeria. However, ACIND, ACM and EXPERT are found to be positively related to DACC of quoted Cement Companies in Nigeria. The respective cases indicate the significance of the relationship given by 1.0000. It is also indicated in the results that the explanatory variables are not highly correlated.

4.2.3 Post Residual Regression Analysis

Table 4.2.3.1 Multi-collinearity

Variance Inflation Factors

Date: 04/18/17 Time: 15:25

Sample: 1 36

Included observations: 36

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	6.725607	1693.704	NA
ACSIZ	0.077310	677.0863	1.922858
ACIND	6.948802	464.2124	2.092871
ACM	0.008081	38.04374	1.286026
EXPERT	0.018389	3.087190	1.029063

The VIF for ACSIZ, ACIND, ACM and EXPERT are 1.922, 2.092, 1.286 & 1.029 respectively. This indicates that, the VIF values are less than 10. Thus, the study concludes that there is no problem of multi-collinearity. Also, that multi-collinearity exists only when the VIF is greater than 10.

Table 4.2.3.2 Heteroskedasticity

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.717717	Prob. F(4,31)	0.5863
Obs*R-squared	3.051330	Prob. Chi-Square(4)	0.5493
Scaled explained SS	2.710329	Prob. Chi-Square(4)	0.6074

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 04/18/17 Time: 15:27

Sample: 1 36

Included observations: 36

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.085718	1.347360	0.063620	0.9497
ACSIZ	0.056240	0.144456	0.389319	0.6997
ACIND	-0.241252	1.369534	-0.176156	0.8613
ACM	-0.024885	0.046704	-0.532830	0.5980
EXPERT	-0.096104	0.070452	-1.364113	0.1824
R-squared	0.084759	Mean dependent var	0.123099	
Adjusted R-squared	-0.033336	S.D. dependent var	0.193239	
S.E. of regression	0.196434	Akaike info criterion	-0.288737	
Sum squared resid	1.196173	Schwarz criterion	-0.068804	
Log likelihood	10.19727	Hannan-Quinn criter.	-0.211975	
F-statistic	0.717717	Durbin-Watson stat	1.432244	
Prob(F-statistic)	0.586298			

The Breusch Pagan-Godfrey Test of Heteroskedasticity DACC, ACSIZ, AUDI, ACMET, and EXPERT given the observed Rsquared of the auxiliary regression P-value of 0.5493, indicates that the data are homokesdasticity. Thus the p-value of 0.5493 which is greater than 0.05 makes the study to accept the hypothesis that the residuals are not heteroskeadasticity but homokesdasticity and is desirable.

4.2.4 Panel Regression Analysis

Table 4.2.4.1 Hausman Specification Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.8984	2	0.0223

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
ACSIZ	-0.044947	0.619988	0.001038	0.0352
ACIND	0.470989	0.341956	0.002279	0.0077
ACM	0.184885	0.074873	0.003884	0.0374
EXPERT	0.543603	0.467830	0.004773	0.0223

The Hausman Specification Test indicates that Fixed Effect Model is most appropriate to Random Effect Model given the Chi-Square value of 8.89 and its corresponding P-value of 0.0223 which is less than the critical value of 0.5.

Table 4.2.4.2 Fixed Effect Regression Result

Dependent Variable: DACC

Method: Panel Least Squares

Date: 04/19/17 Time: 08:28

Sample: 2006 – 2015

Periods included: 10

Cross-sections included: 4

Total panel (unbalanced) observations: 36

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.084623	2.362789	0.459043	0.3397
ACSIZ	-0.044947	0.280995	-0.159955	0.1241
ACIND	0.470989	0.222745	2.114473	0.0429
ACM	0.184885	0.076994	2.401301	0.0267
EXPERT	0.543603	0.193188	2.813856	0.0111
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.487625	Mean dependent var	0.823027	
Adjusted R-squared	0.418282	S.D. dependent var	0.363773	
S.E. of regression	0.341582	Akaike info criterion	0.882673	
Sum squared resid	3.266993	Schwarz criterion	1.234566	
Log likelihood	-7.888108	Hannan-Quinn criter.	1.005493	
F-statistic	6.670744	Durbin-Watson stat	1.177599	
Prob(F-statistic)	0.007118			

The regression line $DACC = 1.084 - 0.044ACSIZ + 0.470ACIND + 0.184ACM + 0.543EXPERT$ indicates that Earnings Quality (DACC) will increase by 0.044 units for every unit increase in Audit Committee Size (ACSIZ), increase by 0.470 units for every 1 unit increase in Audit Committee Independence (ACIND), increase by 0.184 units for every 1 unit increase in Audit Committee Number of Meetings (ACM), and increase by 0.543 units for every 1 unit increase in Audit Committee Financial Expertise (EXPERT). The significant value or P-value of 0.042, 0.026 and 0.011 for ACIND, ACM and EXPERT of less than the t-value of 0.05, indicate significant effect of ACIND, ACM and EXPERT on DACC of listed Cement firms in Nigeria. The F-Statistic of 6.670 and its corresponding P-value of 0.007 indicates that the model is fit. The Coefficient of Determination (R^2) of 0.487 indicates that

about 49% of variation in DACC can be explained by ACSIZ, ACIND, ACM and EXPERT or the ability of the regression line to predict DACC is about 49%. The study therefore, rejects Null Hypothesis which states that, audit committee characteristics have no significant effect on earning quality of listed cement firms in Nigeria. In the absent of ACSIZ, ACIND, ACM and EXPERT, DACC will remain by 1.084 as indicated by constant (α). The Durbin Watson Stat of 1.177 also corroborates the absent of serial correlation.

4.3 Discussion of Findings

The regression result of Audit Committee Size on earning quality, insignificant negative effect was found. This indicates that Earnings Quality (DACC) will reduce by 0.044 units for every 1 unit increase in Audit Committee Size (ACSIZ). This means that, financial reporting quality of quoted cement firms in Nigeria decreases with increase in size of audit committee. This is based on 5% level of significance (95% confidence interval). The finding is in tandem with the findings in the previous works of Yang and Krishman (2005); Fodio, Ibikunle and Oba (2013); Ibrahim and Mairafi (2014) and Mishra and Malhotra (2016). Also, the finding is contrary to the study of Nelson and Jamil (2011); Sharma and Kuang (2013). Based on the finding, the study accepts the null hypothesis that ACS has no significant effect on DACC of listed cement firms in Nigeria.

However, in the case of audit committee independence on Earnings Quality, a significant positive effect was found. This indicate that DACC will increase by 0.470 units for every 1 unit increase in Audit Committee Independence (ACIND), This implies that, quality of earnings of quoted cement firms in Nigeria is a function of Audit Committee Independence. This finding is consistent with the findings in previous studies such as: Ibrahim & Mairafi,

2014; Carcello, Hollingsworth, Klein and Neal 2006; Fodio et al., 2013; Butt & Hassan, 2009. Also, the finding is contrary to the study of Baker and Cotter (2009); Sun (2013) that found negative association with DACC. Based on the finding, the study rejects the null hypothesis which states that ACIND has no significant effect on DACC of listed cement firms in Nigeria.

Furthermore, the regression result on the Audit Committee number of Meeting on Earning Quality, a significant positive effect was found. This means that earning quality (DACC) will increase by 0.184 units for every 1 unit increase in Audit Committee Number of Meetings (ACM). This implies that, financial reporting quality of quoted cement firms in Nigeria is a function of Audit Committee Number of Meetings, This finding is consistent with the findings of previous studies like: Ibrahim & Mairafi, (2014); Chtourou et al. (2001); Collier and Gregory (1999). Also, the finding is contrary to the study of Xie, Davidson and Dadalt (2003) that found negatively associated to current discretionary accruals. Therefore, based on the findings of the study, this means that, the frequency of audit committee number of meetings in a year is assumed to increase the effectiveness of monitoring earning quality of listed cement firms in Nigeria. Therefore, based on the finding, the study rejects the null hypothesis which states that ACM has no significant effect on DACC of listed cement firms in Nigeria.

Thus, the regression result of Audit Committee Financial Expertise on Earnings Quality, a significant positive effect was found. This indicates that DACC will increase by 0.543 units for every 1 unit increase in Audit Committee Financial Expertise (EXPERT). This implies that, quality of earnings of quoted cement firms in Nigeria is a function of Audit Committee Financial Expertise. This finding is consistent with the findings in previous studies such as:

Ibrahim & Mairafi, 2014. Therefore, based on the findings, the study rejects the null hypothesis that ACEXPERT has no significant effect on DACC of listed cement firms in Nigeria.

Therefore, based on the above findings, the significant value or P-value of 0.042, 0.026 and 0.011 for ACIND, ACM and EXPERT of less than the t-value of 0.05, indicate significant effect of ACIND, ACM and EXPERT on DACC of listed Cement firms in Nigeria. The F-Statistic of 6.670 and its corresponding P-value of 0.007 indicates that the model is fit. The Coefficient of Determination (R^2) of 0.487 indicates that about 49% of variation in DACC can be explained by ACSIZ, ACIND, ACM and EXPERT or the ability of the regression line to predict DACC is about 49%. The study therefore, rejects the Null Hypothesis which states that, audit committee characteristics have no significant effect on earning quality of listed cement firms in Nigeria. In the absent of ACSIZ, ACIND, ACM and EXPERT, DACC will remain by 1.084 as indicated by constant (α). The Durbin Watson Stat of 1.177 also corroborates the absent of serial correlation.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Financial scandals and the collapse of some multi-national corporations can be as a result of the unethical accounting practices. Also, one of such unethical issues in accounting is earnings manipulations that come under the umbrella of earnings management and serves as a strategic tool used by management under the pretext of maximizing firm's value and reducing risks. Therefore, the basic functions of audit committee are to oversee the financial reporting process and to monitor manager's tendencies in manipulate earnings. Also, regulators in recent years have questioned the effectiveness of audit committee in ensuring that financial statement are fairly stated, and are without earning quality. Therefore, this study examined the effect of audit committee characteristics on earnings quality of listed cement firms in Nigeria.

Relevant theoretical and empirical literature was reviewed. The review shows that studies on audit committee and earnings quality are motivated by the fact that listed firms use financial statements as one of the major medium of communication with their equity shareholders and the public at large. It also reveals that previous studies in this area of research were marred by inconsistent and inconclusive findings. The differences in findings could be attributed to methodological approaches regarding measurement of the independent variables, disparity in research domains and differences in economic systems where these studies were conducted.

The literature review also reveals dearth of studies on the subject in the Nigerian context. In line with the agency theory that underpins the study, a panel regression model was used with the aim of explaining and predicting empirically changes in discretionary accruals as a result of changes in audit committee characteristics. The model used for the study examined the association between four independent variables: audit committee size, audit committee

independence, audit committee meetings and audit committee financial expertise, and one dependent variable: discretionary accruals.

The cross sectional panel data were extracted from the financial statements of four (4) listed cement firms in Nigeria for the period 2006-2015. The fixed effect regression result revealed that audit committee number of meetings, audit committee independence and audit committee financial expertise have significant positive effect on discretionary accruals, while audit committee size have no significant effect on discretionary accruals of listed cement firms in Nigeria.

5.2 Conclusions

Audit Committee characteristics and its effect on Earnings Quality of listed cement firms has become a topical issue in the literature of Accounting and Finance. Attempt has been made in this study to examine the effect of four characteristics of audit committee on Earnings Quality of listed cement firms in Nigeria. The study formulates four hypotheses that Audit Committee Size, Audit Committee Independence, Audit Committee number of Meetings and Audit Committee Financial Expertise has no significant effect on Earnings Quality of listed cement firms in Nigeria. Based on the result obtained, the study concludes the following that;

- i. Audit Committee size has insignificant negative effect on Earnings Quality of listed cement firms in Nigeria.
- ii. Audit Committee number of meetings has a significant positive effect on Earnings Quality and is a function of quality of financial reporting of listed cement firms in Nigeria.
- iii. Audit Committee independence has significant positive effect on Earnings Quality of listed cement firms in Nigeria.

- iv. Audit Committee financial expertise has significant positive effect on Earnings Quality of listed cement firms in Nigeria,

5.3 Recommendations

The study offers the following recommendations based on the findings of the study:

- i. The audit committee number of six (6) as it is stipulated by Securities and Exchange Commission (SEC) should be maintained as it is found by this study that Audit Committee Size has not encouraged earnings management of listed cement firms in Nigeria.
- ii. The number of outside independent members of the audit committee stipulate by Securities and Exchange Commission (SEC) should be maintained as it is found by this study that audit committee independence has positive influence on discretionary accrual of listed cement firms in Nigeria.
- iii. The number of times the Audit Committee of listed cement firms in Nigeria meets in a year should be maintained as it has positive influence on their discretionary accruals.
- iv. Audit committee members should be selected based on their knowledge of accounting and finance as it is found by this study that Audit Committee Financial Expertise has positive influence on earnings quality of listed cement firms in Nigeria.

5.4 Limitations of the Study

This study is limited by its concentration on only listed cement firms in Nigeria, In another vein, this study only measured four audit committee characteristics such as audit committee size, audit committee independence, audit committee meetings and audit committee financial

expertise while audit committee age, audit committee experience and audit committee share ownership were not looked at. The study is also limited to the period of 2006-2015.

5.5 Suggestion for Further Study

Considering the previous discussion of the major findings and the conclusion of this study, there are possible avenues that can be explored in future research.

This work is limited to listed cement firms in Nigeria; it is recommended that a similar study can be extended to other sectors of the economy. In another vein, a study of this nature can be carried out using other proxies to measure audit committee characteristics such as audit committee age, audit committee experience and audit committee share ownership, this is because this work only used audit committee size, audit committee independence, audit committee number of meetings, audit committee financial expertise respectively. Interested researcher can also extend the scope of the study as this study only covered 2006-2015.

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Appendix A: Data

FYE AR	FIRMS	LIST	SINDU	SLOAN	ASTIV	JREV T	JRRE T	JPP ET	TASST	A C S	ACIND	A C M	E X P E R T	DAC C
2006	Ashaka Cement	Ngse	Cement	-0.19	0.00057	0.06	-0.01	0.21	18,474,436	6	0.50	4	1	0.01
2007	Ashaka Cement	Ngse	Cement	-0.10	0.00054	-0.02	-0.10	0.21	22,230,137	6	0.50	4	1	0.01
2008	Ashaka Cement	Ngse	Cement	-0.17	0.00045	0.22	0.27	0.75	24,985,979	6	0.50	4	0	0.84
2009	Ashaka Cement	Ngse	Cement	-0.07	0.00040	-0.17	-0.13	0.76	25,618,504	6	0.50	4	1	0.57
2010	Ashaka Cement	Ngse	Cement	0.01	0.00039	0.08	0.10	0.73	28,125,125	6	0.50	4	1	0.84
2011	Ashaka Cement	Ngse	Cement	-0.21	0.00036	0.06	0.06	1.76	65,211,835	6	0.50	5	0	1.61
2012	Ashaka Cement	Ngse	Cement	0.00	0.00015	0.02	0.03	0.74	67,325,232	6	0.50	5	0	0.76
2013	Ashaka Cement	Ngse	Cement	0.01	0.00015	0.00	-0.01	0.72	67,423,536	6	0.50	7	1	0.73
2014	Ashaka Cement	Ngse	Cement	0.06	0.00015	-0.01	-0.10	0.74	71,526,871	6	0.50	4	1	0.70
2015	Ashaka Cement	Ngse	Cement	0.07	0.00014	-0.05	-0.07	0.70	70,376,125	6	0.50	4	0	0.70
2006	Cement Compan y of Norther n Nigeria	Ngse	Cement	0.05	0.00085	0.37	0.38	0.24	8,065,516	6	0.50	4	1	0.67
2007	Cement Compan y of Norther n Nigeria	Ngse	Cement	0.03	0.00124	0.21	0.20	0.50	9,108,564	6	0.50	4	0	0.73
2008	Cement Compan y of Norther n Nigeria	Ngse	Cement	0.09	0.00110	0.20	0.21	0.51	8,795,421	6	0.50	4	1	0.81
2009	Cement Compan y of Norther n Nigeria	Ngse	Cement	-0.18	0.00114	0.23	0.19	0.56	5,304,193	6	0.50	4	1	0.57
2010	Cement Compan y of Norther n Nigeria	Ngse	Cement	0.04	0.00189	-0.13	-0.14	1.02	10,721,363	6	0.50	4	1	0.92
2011	Cement	Ngse	Cement	0.02	0.00093	0.25	0.23	0.54	12,568,170	6	0.50	4	1	0.80

	Compan y of Norther n Nigeria													
2012	Cement Compan y of Norther n Nigeria	Ngse	Cement	0.00	0.00080	0.10	0.11	0.52	14,242,000	6	0.50	4	1	0.63
2013	Cement Compan y of Norther n Nigeria	Ngse	Cement	-0.05	0.00070	0.10	0.07	0.50	15,058,475	6	0.50	4	0	0.52
2014	Cement Compan y of Norther n Nigeria	Ngse	Cement	0.00	0.00066	-0.04	-0.09	0.56	15,780,011	6	0.50	4	0	0.47
2015	Cement Compan y of Norther n Nigeria	Ngse	Cement	-0.09	0.00063	-0.13	-0.07	0.64	17,146,883	5	0.60	4	1	0.48
2010	Dangote Cement	Ngse	Cement	0.06	0.00003	0.12	0.11	0.96	402,038,000	6	0.6	5	0	1.13
2011	Dangote Cement	Ngse	Cement	0.04	0.00002	0.10	0.11	0.99	526,483,412	5	0.5	4	1	1.14
2012	Dangote Cement	Ngse	Cement	-0.01	0.00002	0.11	0.07	0.91	673,666,223	6	0.5	4	1	0.97
2013	Dangote Cement	Ngse	Cement	-0.12	0.00001	0.13	0.18	0.86	843,203,275	6	0.6	6	0	0.92
2014	Dangote Cement	Ngse	Cement	-0.07	0.00001	0.01	0.00	0.89	984,720,531	6	0.6	5	1	0.82
2015	Dangote Cement	Ngse	Cement	-0.12	0.00001	0.10	0.11	0.93	1,110,943,000	6	0.6	6	1	0.92
2006	Lafarge Cement WAPC O Nigeria	Ngse	Cement	0.14	0.00020	-0.02	-0.05	0.25	48,753,321	6	0.50	4	1	0.34
2007	Lafarge Cement WAPC O Nigeria	Ngse	Cement	0.07	0.00021	-0.02	-0.03	0.68	50,595,932	6	0.50	4	1	0.73
2008	Lafarge Cement WAPC O Nigeria	Ngse	Cement	-0.05	0.00020	0.09	0.09	0.85	49,067,485	6	0.50	4	0	0.89
2009	Lafarge	Ngse	Cement	-0.09	0.00020	0.05	0.06	1.42	79,380,259	6	0.50	4	1	1.39

	Cement WAPC O Nigeria													
2010	Lafarge Cement WAPC O Nigeria	Ngse	Cement	-0.10	0.00013	-0.02	-0.04	1.27	118,480,913	6	0.50	4	1	1.14
2011	Lafarge Cement WAPC O Nigeria	Ngse	Cement	-0.19	0.00008	0.16	0.15	1.08	152,507,595	6	0.50	3	1	1.04
2012	Lafarge Cement WAPC O Nigeria	Ngse	Cement	-0.07	0.00007	0.17	0.17	0.84	151,948,633	6	0.50	3	0	0.95
2013	Lafarge Cement WAPC O Nigeria	Ngse	Cement	-0.06	0.00007	0.07	0.06	0.82	161,081,711	6	0.50	4	0	0.83
2014	Lafarge Cement WAPC O Nigeria	Ngse	Cement	-0.09	0.00006	0.66	0.58	1.30	305,878,828	6	0.50	4	1	1.79
2015	Lafarge Cement WAPC O Nigeria	Ngse	Cement	-0.10	0.00003	0.20	0.18	1.19	453,012,397	6	0.50	4	1	1.27

Data Sources: Annual Audited Reports and MachameRATIO [®] 2016.

Appendix (B)

4.2.3 Panel Regression Analysis

Table 4.2.4.1 Hausman Specification Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq.		Prob.
	Statistic	Chi-Sq. d.f.	
Cross-section random	8.8984	2	0.0223

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
ACSIZ	-0.044947	0.619988	0.001038	0.0352
ACIND	0.470989	0.341956	0.002279	0.0077
ACM	0.184885	0.074873	0.003884	0.0374
EXPERT	0.543603	0.467830	0.004773	0.0223

Appendix (C)

Table 4.2.4.2 Fixed Effect Regression Result

Dependent Variable: DACC

Method: Panel Least Squares

Date: 04/19/17 Time: 08:28

Sample: 2006 – 2015

Periods included: 10

Cross-sections included: 4

Total panel (unbalanced) observations: 36

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.084623	2.362789	0.459043	0.3397
ACSIZ	-0.044947	0.280995	-0.159955	0.1241
ACIND	0.470989	0.222745	2.114473	0.0429
ACM	0.184885	0.076994	2.401301	0.0267
EXPERT	0.543603	0.193188	2.813856	0.0111
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.487625	Mean dependent var	0.823027	
Adjusted R-squared	0.418282	S.D. dependent var	0.363773	
S.E. of regression	0.341582	Akaike info criterion	0.882673	
Sum squared resid	3.266993	Schwarz criterion	1.234566	
Log likelihood	-7.888108	Hannan-Quinn criter.	1.005493	
F-statistic	6.670744	Durbin-Watson stat	1.177599	
Prob(F-statistic)	0.007118			