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Moderating effect of audit quality on the relationship between internal governance mechanisms and financial reporting quality

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Abstract

This study investigates the moderating effect of audit quality on the relationship between governance mechanisms and financial reporting quality of listed consumer goods firms in Nigeria. The study adopts a correlational research design as a guide. The population of the study consist of twenty-one (21) consumer goods firms that are listed in the NSE from 2012 to 2021 out of which seventeen 17 firms was used as adjusted population. Given the research design, multiple regression technique is employed as technique of data analysis. The study findings revealed that board composition and audit committee financial expertise when interacted with auditor size has significantly improved the quality of earnings there by preventing the devious tendencies of managers manipulating accruals. It is therefore recommended that shareholders should consider regulating the appointment of the non-executive to the maximum of 56% so as not to over plugged the board with the non-executive directors which may result to increase in costs. However, it is also advice that financial expert member's appointment to the audit committee should not be jeopardize as such it is recommended that the proportion of the financial expert in the audit committee should not reduce if not increase.

Keywords: Audit quality, financial reporting, internal governance mechanism

1. Introduction

Financial reporting quality has become a major source of concern among analysts, investors, managers, and other market participants (Ifeanyichukwu & Ohaka, 2019; Olowokure, Tanko & Nyor, 2016). To protect themselves, company agents are concerned about beating analyst forecasts while maintaining sustainable development (Mohammed & Hamdan, 2020). Distorting accounting figures, especially earnings, may result in costly information possession; indeed, when accounting earnings are unclear, a stronger oversight role might be required by company owners (Gaio, Raposo & Lisboa 2014). Market analysts on the other hand, are concerned with how to better determine the worth of company earnings as reported by managers on the financial statement in order to maximize shareholders' wealth. As a result, all stakeholders however, desire to look into the importance of financial reporting quality in resource allocation.

The global corporate accounting scandals which cost corporate investors an amount ranging from \$180 to \$360 billion annually, claims the lives of many corporate entities such as Enron and WorldCom internationally while locally, companies and banks such as Cadbury Nigeria PLC and Oceanic, Intercontinental, Afri, Skye and Diamond Banks have all been affected (Bernstein, 2019). In addition, Naira value has massively deteriorated from 2016 to 2017 as a result of dripped recession that engulfs Nigeria. Within these periods managers of corporations use their discretion on company's earnings in a bid to beat analyst forecast and meet investor's value maximization goals (Pwc 2018) which affect the quality of firm's financial reports. Unfortunately, these scandals occurred when internal governance mechanisms were present.

The consistency of financial reporting is expected to be linked to board composition (non-executive directors). According to a variety of studies, non-executive directors are less likely to participate in earnings management through abnormal accruals (Ibrahim, Mansor & Nasidi, 2020; Ibrahim & Jehu, 2018). Several other studies support their findings regarding their ability to discourage managers' opportunistic earnings management habits, which could have a direct impact on financial reporting quality (Mazurczak-m, Turek-radwan, Pawel & Boguslaw, 2020). As a result, presence of non-executive director is expected to help reduce agency costs and improve financial reporting quality. While some literature for example Fernández, Méndez, Arrondo Garca, and Pathan (2017) suggested the opposite or neutral aspect of the above arguments.

Another critical internal governance feature within the governance mechanisms is the Audit Committee, which is a board sub-committee charged with financial reporting oversight and has been regarded as an integral tool in exercising oversight over managers' self-beneficial earnings management (Bala, Amran, & Shaari, 2020; Mohammed & Hamdan 2020). Since managers of a firm, as preparers of the company's financial statement, have information control over the firm owners, they stand a greater chance of using their leverage in reporting accounting numbers for self-benefit, as Agency theory postulates. These actions can have unintended consequences, such as distorting a company's earnings and lowering the standard of financial reporting (Bala, Amran, & Shaari, 2018; Setiany, Hartoko, Suhardjanto & Honggowati 2017). Several audit committees attributes have been found to be successful in preventing unnecessary earnings management by firm managers in previous literatures. As a result, (Al-sraheen, Saleh, and Alsmadi 2019; Bala et al., 2020; Mohammed and Hamdan, 2020) assume the audit committee gender, audit committee financial expertise).

Again, audit quality may be useful when interacted in order to supplement the effort of the above internal governance mechanisms for a stronger and quality financial report that is free of error and misrepresentation. Initially, there is a connection between audit quality and financial reporting quality (Suleiman, Aibar-guzmán & Abdullatif, (2020), knowledge asymmetry and competing interest are two pillars of agency theory that are intended to be mitigated by audit quality following a thorough review of the client financial statements (Taktak, Neila, Boulila & Mbarki, 2014). While the internal governance system monitored the processes of managers preparing financial statements to ensure that the recorded earnings were not inflated by the managers, independent auditors are to check the true position of the client financial status as reported by managers via financial reports. Audit quality, likewise, act as guarantors to financial statement consumers that a company reported earnings can be relied on for making sound investment decisions. As a result, the corporate governance structure such as board composition, audit committee gender and audit committee financial expertise is expected to be moderated by audit quality.

Quoted consumer goods firms in Nigeria are a composite of the real economy of this country that reduces the rate of unemployment and increases government revenue through taxed profits. Furthermore, the peculiar and sensitive nature of the Nigerian consumer goods firms in terms of their contribution to Gross Domestic

Product (GDP) and the general economic growth and development is a motivation for this research. This is because the only known medium of disclosing quality accounting information to stakeholders and potential investors is through financial statements of these firms. The study therefore, examines the moderating role of audit quality on the relationship between internal governance mechanisms on financial reporting quality of quoted consumer goods firms in Nigeria.

The failure of some listed company executives to generate quality financial results for end users has become a habit in Nigeria (Bernstein, 2019). This predicament was exposed by an investigation conducted by the Securities and Exchange Commission (SEC) in conjunction with the Financial Reporting Council of Nigeria (FRCN), which identified companies with reported serious infractions and misleading disclosures in their financial statements and brought them to the attention of the public (Bernstein, 2019; Pwc, 2018). It's worth noting that regulatory authorities have been fighting this issue for over four decades. Apart from the scandals involving Cadbury plc, Lever Brothers, African Petroleum (AP), Con oil, Total, Mobil, MRS, and banks such as Savannah, Wema Nampak, Fin, Spring, Intercontinental, PHB; Oceanic, Afri. from the 1990s to 2012, the public has recently witnessed the penalties imposed on companies such as Stanbic IBTC, Eco, Diamond banks, and Oando Plc in 2016, 2017 and 2018 for corporate misconduct (Bernstein, 2019; Trust, 2017).

As a result, with the exception of a few studies, the most common theme in almost all of these studies is that financial reporting quality was examined as a direct relationship (Bala et al., 2020; Mohammad & Ahmed 2017). Considering the importance of financial reporting in reducing knowledge asymmetry, with the goal of facilitating efficient resource distribution for a more efficient and productive economy and higher-quality financial reports. Furthermore, good external auditors with a demonstrated reputation for independence could assist in supplementing the efforts of internal governance mechanisms in restraining managers' opportunistic tendencies. Engaging Big4 auditors, who have been shown to have honesty, transparency, resourcefulness, and independence could complement internal governance efforts in restraining managers' unnecessary earnings management, resulting in higher-quality financial results (Vitalis, & Mdoom, 2017). This necessitates moderating the selected variables with the audit quality of which a direct relationship has been formed in order to decide if the outcome would be stronger or weaker.

In light of the identified gaps, the study's question is whether audit quality would moderate the relationship between board composition, audit committee gender and audit committee financial expertise and financial reporting quality consumer goods firms in Nigeria?

2. Literature Review

Financial Reporting Quality (FRQ) is viewed differently in the literature, as there is no consistent and generally accepted definition (Olufemi & Patrick, 2018). The conceptual framework only highlights the key features and emphasized that useful financial information must be relevant capable of projecting or assenting value and faithfully presented (Financial Accounting Standard Board, 2010). The conceptual framework has therefore provided a premise of which financial reporting quality have been defined by scholars. For instance, Gaynor, Kelton, Mercer, and Yohn, (2016) defined as complete, unbiased and error free financial information of valuable predictive nature showing true economic situation and performance of firm at a given period of time. It also been defined financial reporting quality as faithfulness of the information expressed by financial reporting procedure (Matinez and Moaes, 2017).

Board composition and Financial Reporting Quality

Miko (2020) explored the influence of corporate governance mechanisms and firm characteristics on Nigerian companies' earnings management practices. Panel secondary data was collected over a five-year period from the annual accounts of 81 firms (2009-2011). Ordinary Least Square through the use multiple regression technique is used to estimate the extent to which corporate governance variables and firm's characteristics influences earnings management. The study findings after conducting several post-estimation tests and after controlling for firm size, leverage, cash flow, unprofitable companies and industry indicated in the first model that board independence (non-executive directors) does not support constraining earnings management in the selected firms within the study period. The findings further indicated that board independence, has a positive but insignificant association with earnings management which is contrary to the study prior expectation. In concluding the study non-executive director were not a factor in reducing earnings managements by firms. However, this study considers partial moderation and the period of 2009-2011 is considered overtaken by events as changes in economic policies and governance reforms might have rendered the findings invalid. Thus; the proposed study is set to extend the period and performing full moderation.

Nawafly and Alarussi (2019) investigated the influence of board attributes, audit committee characteristics and external auditor attributes on financial reporting quality (disclosure quality of financial reporting). The data was extracted from the annual report and accounts of 150 non-financial firms listed in Bursa Malaysia in cross-section for 2014. SPSS toll of analysis was utilized to run multiple regressions as a technique of analysis. The result obtained from the statistical analysis shows no evidence of significance association between non-executive directors and financial reporting quality while a positive and statistical significance association was obtained between board expertise, audit committee independence, audit committee size, audit committee expertise and auditor independence and financial reporting quality. It was concluded by the study that; audit committee attributes and external auditor independence (measured by Big4) play a prominent role in pressurizing managers to make adequate disclosure for improving financial reporting quality. Among the major limitation of this study is the use of cross-sectional data of just 2014, this limit the generalization of the findings across years which the present study is set to address.

Furthermore, Ibrahim and Jehu (2018) examined empirically, the effect of non-executive directors on the in formativeness of financial reporting quality. Data was collected through secondary sources extracted from the annual report and accounts of 576 sampled Nigerian firms between the periods of 2011 to 2016. Multiple regression technique of analysis was adopted with the help of multivariate model. The findings of the study indicated that non-executive directors have a negative and significant influence on abnormal accruals within the sample firms. This further suggests that the relationship between non-executive directors and abnormal accruals is inverse while its linear with financial reporting quality. It was concluded that non-executive directors are competent in detecting abnormal earnings management through abnormal accruals. However, economic recession that engulfs Nigeria recently between 2017-2018 might have drastically affected the generalization power of the study which the present study is set to address.

Again, Aifuwa and Embele (2019) in their study of 37 Nigerian Consumer goods firms selected using random selection process. They investigated the effect of board characteristics on financial reporting quality and the study concluded that board attributes moderately influence financial reporting quality, meaning that non-executive directors is not part in improving financial reporting quality. Findings reveal a negative and insignificance relationship between non-executive directors represented by board independence and financial reporting quality in the sample firms. The study concluded that non-executive directors does not exert any role in mitigating unwanted earnings management by managers of consumer goods firms listed in Nigeria. Secondary sources of data were wholly used in the study, simple regression technique of data analysis was adopted in order to establish the expected relationship. Though the sample was Deposit Money Banks within the period of 10 years (2009-2018), this proposed study will use a moderator to examine the strength or weakness of the relationship between the study variables. The following hypothesis is postulated:

H_1: Audit quality has no significant moderating effect of board composition on financial reporting quality of listed consumer goods firms in Nigeria.

Audit Committee Gender and Financial Reporting Quality

Bala et al. (2020) examined the effect of audit committee attributes on cosmetic accounting in Nigeria: The moderating effect of audit price. Among the primary independent variable proxies, they utilize are audit committee financial expertise, audit committee legal expertise and audit committee gender. Different variables were utilizing as control variables including audit committee independence and size while moderating with audit fees represented with audit price in the study. 624 firm-year observations data was extracted from the annual report and accounts of the sample firms for the period of 9 years (2008 to 2016). Pooled logit regression technique is employed. The statistical results from the logit regression result documented an evidence of negative and significance association between audit committee gender and cosmetic accounting both in the direct and the interaction (moderated) model where the negative association was better explained, thus, strengthening the quality of financial report. This finding was arrived at after several post-estimation tests was conducted in order to improve the reliability and validity of the statistical findings of the study. However, despite that the economic crises of late 2016-2017 and the regulatory improvement of the corporate governance code of 2018 might have taken over the study findings. Thus, this present study is set to fill the gap by extending the study period.

Mwangi (2018) in his study of non-commercial corporations in Kenya aimed to find out the consequences of audit committee on financial reporting quality. Audit committee financial expertise and audit committee gender measured by audit committee diversity form parts of the treatment variables. In order to extract secondary data, 72 non-commercial state corporations were utilized as sample using census sampling technique. Multiple regression technique of data analysis was utilized to test the effect of the independent variables on the dependent variable (financial reporting quality). Furthermore, the findings from the statistical result indicated that, audit committee gender as measured by diversity play an important role in reducing the number of queried transactions on the annual estimates thereby, improving the financial reporting quality. The study concluded that female audit committee members are more prudent and avoid litigation arising from misleading financial statement than male audit committee members. However, no any evidence of post-estimation test was reported to have been conducted by the study which may help improve the reliability of the findings.

In the same vein, Salleh and Haat (2017) examined the effect of audit committee gender in Malaysia after the MCCG revision. 560 listed Malaysian firms were sampled each for Pre-and Post MCCG revision for the period of 2005, 2006, 2008 and 2009 respectively for the pre and post period. Panel data were extracted from annual report and accounts of the selected firms for analysis. Multivariate regression was employed in order to empirically investigate the expected relationship. The findings from the multivariate regression results indicated that only presence of Malay director in audit committee constrain earnings management, but the presence of woman member/director in audit committee has no any significant influence in constraining earnings management and improving financial reporting quality. the conclusion from the study was female audit committee members are immaterial in constraining earnings managements in listed firms of Malaysia. The period of the study 2009 is far back which diminishes the value of the study by now. Therefore, conducting similar study to cover 2020 year may yield more superior result. The following hypothesis is postulated:

H_2: Audit quality has no significant moderating effect of audit committee gender on financial reporting quality of listed consumer goods firms in Nigeria.

Audit Committee Financial Expertise and Financial Reporting Quality

Masliza et al. (2018) have evaluated the effect of audit committee attributes on financial restatement in Malaysia. In order to achieve this objective data were collected from the total sample of 350 Malaysian firms that did not restate their financial statement over a period of two (2) years from 2008 to 2009. Multiple regression was adopted in order to help achieving the stated objective by way of analysis. The results from the statistical findings indicated that audit committee attributes such as; independence, size and financial expertise help in explaining the chances of financial restatement among the Malaysian listed firms within the period covered by the study. The study concluded that chances of restating financial statement is reduced as a result of presence of financial expert as a member in the audit committee. Eleven (11) years from the period of the study is enough to invalidate the findings of the study.

Mohammad and Ahmed (2017) examined the influence of audit committee attributes and external auditor attributes on financial reporting quality among Malaysian listed firms. The study uses a sample of top most performing companies listed on Bursa Malaysia stock exchange. The cross-sectional data was extracted from the firms' annual accounts for 2014. Ordinary Least Square regression using multiple regression technique is applied in order to examine the statistical impact of the treatment variables as against the dependent variable (financial reporting quality). The statistical findings indicated that audit committee independence, financial expertise and diligence have explanatory power over financial reporting quality of the top most performing Malaysian firms. Conversely, the finding signifies that auditor industry specialization has considerable effect on financial reporting quality, while large audit firms (auditor independence) do not have any explanatory effect on financial reporting quality. the study concluded that audit committee financial expertise exerts an important role in mitigating manager's unwanted opportunistic behavior. The cross-section data used in a study like this for just a year exerts significance unreliable findings because it neglects the monitoring activities perform by the explanatory variables in the previous years.

Again, Mwangi (2018) in his study of non-commercial corporations in Kenya aimed to findout the consequences of audit committee on financial reporting quality. In his study audit committee financial expertise and audit committee gender measured by audit committee diversity form parts of the treatment variables. In order to extract secondary data, 72 non-commercial state corporations were utilized as sample using census sampling technique. Multiple regression technique of data analysis was utilized to test the effect of the independent variables on the dependent variable (financial reporting quality). Furthermore, the findings from the statistical result indicated that, audit committee financial expertise contributes to non-queried transactions on the annual estimates thereby, improving the quality of financial reports. However, no any evidence of post-estimation test was reported to have been conducted by the study. The following hypothesis is postulated:

H_2: Audit quality has no significant moderating effect of audit committee financial expertise on financial reporting quality of listed consumer goods firms in Nigeria.

Theoretical framework

Agency theory became a formal concept after the work of (Jensen & Meckling, 1976). It is claimed that, since company is not always managed by the principal, corporation is belief to designed an avenue to mitigate the costs of having agents (agency cost) to pursue the principal's interests. Different actors involved in the same situation with the same goal would have different motives, according to the theory. This ensures that the agent would still have information control over the principal, resulting in information asymmetry between the two. However, this is because efficiency and effectiveness are inseparable there will be conflict of interest within and among the parties. Furthermore, a contractual arrangement is said to occur when one or more people stand to delegate one or more people to act and make decisions on their behalf. As a consequence, the agency theory is concerned with contractual arrangements between two or more individuals, including agents, who are hired to perform particular tasks on behalf of their superiors. Both parties are expected to conclude a collective agreement, which is motivated solely by self-interest. In particular, the theory of agency explains the relationship between one party (director), the responsibility of which is delegated to others (agents). This explains their differences in their behavior or decisions, so that both parties often have different goals and independently of their individual goals and different attitudes towards taking risks. Always decision-making by agents assumes they have an impact on both sides.

Therefore, this present study adopts agency theory considering its posture in protecting shareholders' wealth maximization goal and resolving conflict of interest that usually arises between agents and principals of companies.

3. Research Methodology

The study examined the impact of moderating effect of auditor type on the relationship between governance mechanisms and Financial Reporting Quality of quoted Consumer Goods Firms for the period of ten (10) years from 2012-2021. The base of choosing this period is in line with the recent corona virus pandemics which has steered to the noise for financial reporting quality amongst listed companies in Nigeria. The study uses correlational design because it aids in explaining the effect of governance mechanisms on financial reporting quality of the sampled companies. The data is secondary source obtained manually from audited reports and accounts of the selected companies. A total of seventeen (17) consumer goods firms out of the twenty-one (21) firms due to unavailability/incomplete Data. Therefore, four (4) firms were eliminated leaving 17 firms which form the adjusted population of the study. Multiple regression technique is use for the study analysis.

$TAC_{it}/A_{it} = \beta_0 + \beta_1(1/A_{it-1}) + \beta_2(\Delta REV_{it} - \Delta REC_{it}/A_{it-1}) + \beta_3(PPE_{it}/A_{it-1}) + \beta_4(ROA_{it}) + \beta_5(SG_{it}) + \varepsilon_{it}$------i

$TAC_{it} = NI_{it} - CFO_{it}$ ---ii

Where:

$TAC_{i,t}$: Total accruals in year t, for firm i, = $(\Delta CA_{it} - \Delta CL_{it} - \Delta Cash_{it} + \Delta STDEBT_{it})$

$\Delta REV_{i,t}$: Revenues in year t, minus the revenues from year t-1, for firm i,

$PPE_{i,t}$: Property, plant and equipment divided by average assets in period t for firm i,

$ROA_{i,t}$: Net income divided by average assets in period t for firm i,

$TA_{i,t-1}$: Total assets at the end of the fiscal period t-1 for firm i,

SG_{it}=Sales in year t, minus the Sales from year t-1, for firm i,

$\varepsilon_{i,t}$: Error in the course of the year t, for firm i,

α_1 to α_4: coefficients of the parameters for firm i,

TA = Total Accruals ; $NI_{i,t}$ - $CFO_{i,t}$

NI = Net Income

$NI_{i,t}$: Net profit of company i in year t,

CFO = Cash Flow from Operating Activities

A = Total Assets

ΔREV = Change in Revenue

ΔREC = Change in Receivables

PPE = Gross Property, Plant and Equipment

ROA = Return on Assets

SG = Sales Growth

β= Constant

it = Firm i at Time t

ε = Error term

Therefore, the parsimonious model is presented as follows:

$FRQ_{it} = \beta_0 + \beta_1 BCOMP_{it} + \beta_2 ACGD_{it} + \beta_3 ACFE_{it} + \beta_4 EXTAUDit + \beta_5 BCOMP_{it} * EXTAUDit + \beta_6 ACGD_{it} * EXTAUDit + \beta_7 ACFE_{it} * EXTAUDit + \varepsilon_{it}$

Where:

FRQ= financial reporting quality

BCOMP= board composition

ACGD= audit committee gender

ACFE= audit committee financial expertise

β0= Constant

β1- β7= coefficient of the parameters

it= firm and year

Ɛ= error term

The equation below explains the model used in arriving at the accruals which is the measure of financial reporting quality in the study.

3.2 Variables Measurement

The variables of the study consist of dependent variable which is financial reporting quality measured by the Collins et al (2017) modifies discretionary accruals model.

Financial Reporting Quality (Dependent Variable). Board Composition (Independent Variable) is measured by the total number of non-executive directors to total number of the board members (Miko, 2020). Audit Committee Gender (Independent Variable) is defined as the proportion of women on the audit committee to the total number of the committee (Bala et al, 2019). Audit Committee Financial Expertise (Independent Variable) is defined as the proportion of audit committee members with Accounting or Finance expertise to the total number of audit committee members (Muhammad & Ahmad, 2017). However, Audit Quality proxied by external Auditor size (moderating Variable) is defined as the largest global audit firm (Deloitte, Pwc, Ernst & Young and KPMG). Measured by dichotomy ('1' provided the company is being audited by any of the big4 audit firm and '0' otherwise) (Nawafly and Alarussi, 2019).

4. Results and Discussions

This section presents the results of the empirical study as per data collected.

4.1 Descriptive Statistics

The descriptive statistics consist of mean, minimum, maximum, standard deviation, kurtosis and skewness.

Table 1: Descriptive Statistics of the study variables

Variable	Mean	Minimum	Maximum	Std. Dev	Kurtosis	Skewness
FRQ	.0311	.0106	.0721	.0113	6.2829	1.8248
BCOMP	.5580	.1753	.7857	.1126	2.4387	-.2595
ACGD	.1155	0	.3333	.1138	2.0027	.44899
ACFE	.2540	.1667	.5333	.0784	1.9699	.19407
EXTAUD	.6176	0	1	.4874	1.2344	-.4842

Source: *Stata Output*

Table 1 above reports the descriptive statistics for the dependent and independent variables respectively. The results show that the mean financial reporting quality, board composition, audit committee gender and audit committee financial expertise are 0.0311, 0.5579, 0.1115 and 0.2540 respectively. A similitude of the mean values with the maximum values for each of the variables shows the consumer goods company currently provides quality financial information for the investors to make decision. The mean of board composition denotes that on average 56% of the board of Nigeria's consumer goods companies are non-executive and 44% are executive directors which is commendable in line with code of corporate governance, 2018, The mean value of audit committee gender indicates that 11% of women represented on the board of directors in the audit committee members. However, the average of audit committee financial expertise stood at 25% which means members in the audit committee is financial literate.

4.2 Regression Results

The table explains the regression results obtained from the parsimonious model of the study is presented in Table 2 below.

Table 2: Summary of Regression Results

	Unmoderated Model 1			Moderated Model 2		
Variables	**Coefficients**	**z-values**	**p-values**	**Coefficients**	**z-values**	**p-values**
BCOMP	0.929	2.47	0.014	0.392	4.38	0.000
ACGD	-0.720	-1.79	0.074	0.059	0.63	0.526
ACFE	0.743	1.71	0.087	0.354	4.39	0.000
EXTAUD	-0.296	-3.05	0.002	0.474	5.86	0.000
CONSTANT	-0.365	-1.23	0.220	-0.277	-5.57	0.000
BCOMPEXTAUD				-0.611	-7.74	0.000
ACGDEXTAUD				-.067	-0.73	0.467
ACFEEXTAUD				-0.492	-4.23	0.000
R-Square			**0.3358**			**0.5309**
Wald Chi-square	**15.58**		**0.0036**	**38.17**		**0.0000**

Source: *Stata Output, 2023*

As can be inferred from the above table, the moderated model in which the cumulative explanatory power that is R^2 (0.5309) which is the multiple coefficients of determination gives the proportion or percentage of the total variation in the explained variable by the explanatory variables jointly. Hence, it signifies 53.09% of total variation in financial reporting quality of listed consumer goods firms is caused by the collective effort of board composition, audit committee gender and audit committee financial expertise. This denotes better than the first unmoderated model of R2 of 33.58%. This further indicates that the model is good, adequately and well fitted in the model and indeed the explanatory variable are properly selected, combined and used. This can be confirmed by the wald chi-square coefficient of 38.17 and wald-sig of 0.0000 which is statistically significant at 1% level of significance compared with the unmoderated model of 15.58. By comparison, the model is fitted when interacted with the moderator as can be seen from the result. Therefore, this result can be relied upon.

The result from table 4.2 above shows that moderated board composition represented by proportion of non-executive directors to total board documented a z-value of -7.74 with coefficient of -0.611 and p- value of 0.000. This indicated that board composition is negatively and significantly related to financial reporting quality of consumer goods firms in Nigeria. This signifies that increase in the representation of non-executive director's members on the board of consumer goods firms in Nigeria gives guarantee financial reporting quality. this may be as a result that non-executive directors have a stake in the company. The finding supports Ibrahim and Jehu (2018) and Nawafly and Alarussi (2019) and is in contrary to that of Abdelkarim and Zuriqi (2020), Aifuwa&Embele (2019) Bala and Ibrahim (2015). Thus, for Hypothesis, H_{o1} is rejected.

The regression result from table 4.5 shows that moderated audit committee gender has a coefficient value of -.067, a z-value of -0.73 and a p-value of 0.467 which is statistically insignificant at any acceptable level of significance level. This result indicates that as the percentage of women directors' upturn in the board of consumer goods firms, this means that representation of women may not deterred managers from the possibility of managing discretionary accruals as can be seen from the result while enhancing financial reporting quality of consumer goods firms listed in Nigeria. Also, this result may be as a result of female may not have nosy mind and their boldness when it comes to leadership/power. This result supports the result of Salleh and Haat (2017) and is in contrast to the result of Bala et al., (2019b) and Mwangi (2018). Thus, for Hypothesis Ho2 is failed to be rejected.

Moderated audit committee financial expertise documented a z-value of 4.85, with a coefficient of -0.492 and a p-value of 0.000 which is significant at 1% significance level as represented in table 4.2. This negative effect on discretionary accruals of consumer goods firm implies a positive impact on the quality of earnings. This means that a percentage rise in audit committee members with financial literacy, will increases the financial reporting quality of listed consumer goods firms in Nigeria. This result is not amazing since the fact that financially literate will have the capability of dissecting and understanding the technicalities that has to do with financial reporting and advice accordingly. The finding support Mwangi (2018). Thus, for Hypothesis, H_{o3} is rejected.

By comparison, one more exciting difference between the two models (unmoderated and moderated) explanatory variables is the direction of the results. In essence the direction of the results for the unmoderated model has changed as a result of including external auditor as a moderator (interacting variable).

5. Conclusion and Recommendations

The study investigated the moderating effect of auditor size on the relationship between governance mechanisms and financial reporting quality of listed consumer goods firms in Nigeria for the period of ten-years from 2012-2021. Based on the correlational design, multiple regression technique was utilized for estimate and an agency framework helped support the variables of the study. Base on the results, we conclude that with the exception of audit committee gender, moderated board composition and audit committee financial expertise in respect to financial reporting quality in consumer goods firms in Nigeria have improved significantly.

It is therefore recommended that regarding to the appointment of non-executive directors to the board, the shareholders should consider regulating the appointment of the non-executive to the maximum of 56% so as not to over plugged the board with the non-executive directors which may result to entrenchment effect and reduce financial reporting quality. However, it is also advice that financial expert member's appointment to the audit committee should not be jeopardize as such it is recommended that the proportion of the financial expert in the audit committee should not reduce if not increase.

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