Audit and Compensation Committee Overlap and Financial Reporting Quality of Firms

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ABSTRACT
The study examined audit and compensation committee Overlap (Independent variable) and financial reporting quality (dependent variable) of food and beverage manufacturing firms quoted on Nigeria Stock Exchange. Data were obtained for the period 2011-2014. Hausman test was conducted on data for selection of appropriate model and thereafter data set was regressed on financial reporting variables. For reporting quality, reliability as a measure of reporting quality was used after accruals were decomposed into discreptional and non-discretionary accruals. This was to assist determination of existence or non-existence of earnings management. Finding suggested negative association of committee overlap with earnings quality implying increase in overlap deteriorates reporting quality. Also, the study confirmed that committee overlap does not mitigate earnings management and abnormal accruals. Based on findings, we recommend tightening of corporate governance mechanisms and amendment of Companies and Allied Matters Act

Keywords: Audit Committee, Compensation Committee, Overlapping Membership, Reliability, Financial Reporting Quality

INTRODUCTION
The goal of financial reporting is the provision of quality financial information about economic activities of an entity to satisfy the diverse needs of users. Accounting Fraud which heralded failures of blue chip firms in the last decade exposed the inadequacies of corporate administration mechanisms. This threatened resilience on financial reports, weakened investors’ confidence and created apathy and worldwide skepticism about the quality of financial reports. The credibility problems endangered free market activities and could be addressed through reforms engineered by regulators focused on corporate control. Corporate governance plays a significant role in the economy and helps to mitigate agency problem between agents (Managers) and principal (stakeholders). Agency conflicts sometimes require legal redress. In emerging markets and third world countries with weak legal institutions this may be problematic as foreign investors could find it cumbersome to seek redress in cases of violations of extant covenants by domestic partners. The problem is further exacerbated by the absence of International law enforcement agencies to deal with contractual agreement violations. The quick fix therefore is to strengthen corporate governance mechanisms to serve as a deterrent.

Corporate frauds have motivated a number of corporate control initiatives aimed at restoring credibility of financial reports and preventing corporate failures. Formation of different committees from the board represents delegation and sharing of responsibilities and has been recommended as a suitable mechanism for improving corporate governance Kesner (1988), Spira & Benda (2004). It is also believed that if advisory and monitoring responsibilities are carried out by the same set of directors that sharing of information will be limited by CEO to forestall monitoring of the CEO.
Statement of the Problem
Board committees have the responsibility of setting executive pay and monitoring the financial reporting process. Audit Committee; a sub-committee of the board is charged with the responsibility of financial reporting monitoring while compensation committees are charged with the duties of deciding executive pay. There is the possibility of biased financial reporting that compensation packages with greater pay performance sensitivity may create. This calls for the efficacy of audit committee in improving reporting quality. Accounting fraud and falsification of financial statements motivate increased corporate governance initiatives.
Prior empirical studies found positive association between audit committee and reporting quality while other studies present results to the contrary thus generating gaps for further studies. In Nigeria, the collapse of banks, African Petroleum, the Cadbury scandal and the recent takeover of Skybank by Central Bank of Nigeria suggests that audit committees are not doing enough to curtail business failures and hence serve as a motivation for further studies on the role and effectiveness of audit committees. Also, despite few prior empirical studies in other economies that suggest that cross membership of audit committee with remuneration and other committees enhances effectiveness and curtail bankruptcy there is no study to our knowledge that a study has been conducted in Nigeria. The problems of cultural, economic and technological disparity limits generalization of such studies to a third world economy like Nigeria. Secondly, disparity in corporate governance regulations across countries inhibit generalization of studies. Thirdly, industry specific characteristics could influence result of previous studies and motivates the necessity for more studies. This is necessary because the nature of industry to a large extent influences corporate governance initiatives by regulators In Nigeria. For instance uniform accounting year end is mandatory for financial institutions but is not applicable to firms in other sectors of the Nigerian economy. Therefore the objective of this study is to investigate if overlapping membership between audit and compensation committee influences financial reporting quality of food and beverage firms in Nigeria.

LITERATURE REVIEW
Theoretical framework
Agency Theory
Agency theory argues that there is always conflict of interest when the owners are not directly involved in the day-to-day running of business. The theory predicts that misalignment of interests between shareholders and managers creates agency problems and results in managers engaging in activities in pursuance of their own benefits rather than the benefits of the firm’s shareholders (Jensen & Meckling, (1976). Manager’s compensation plans draw from agency problem and aims at mitigating the principal-agent conflict by seeking to align the interest of managers to those of shareholders. On the contrary, Bebchuk & Fried (2003) reasoned that the design of executive compensation makes it more than an instrument for addressing the agency problem between managers and shareholders but also constituent constitute part of the agency problem itself.
An effective compensation program can add value to the firm by improving the alignment of management incentives with stockholder interest. Since the objective of shareholders is to maximize wealth; agency theory predicts that manager’s compensation policies will depend on changes in shareholder wealth (Jensen & Murphy, 1990).

Bonus Plan Hypothesis
The hypothesis suggest that Managers of firms compensated through bonus plans are inclined to choosing accounting methods and procedures that pull reported earnings from future periods to the current period. The motive is to raise bonuses due to them in the current reporting year. It is presumed if the compensation committee of the board of directors does not adjust for the method chosen managers will benefit from the pull in income to current year by earning more bonuses. This managerial behavior is tagged “opportunistic” because of the deliberate selection of accounting techniques which best suit their selfish profit intent.
Conceptual Framework

Audit Committee

Audit committee oversees the financial reporting process, audit process, system of internal controls and compliance with laws and regulations. The committee review significantly the accounting and reporting issues and recent professional and regulatory pronouncements to understand the potential impact on financial statements. An understanding of how management develops internal financial information is necessary to assess whether reports are complete and accurate.

The committee reviews the results of the audit with management and external auditors, including matters required to be communicated to the committee under generally accepted auditing standards. Audit committees will consider internal controls and review their effectiveness. Reports on and management responses to, observations and significant findings should be obtained and reviewed by the committee.

Controls over financial reporting, information technology security and operational matters fall under the purview of the committee. The committee establishes procedures for accepting confidential, anonymous concerns relative to financial reporting and internal control matters. Often referred to as a “whistle-blower policy,” the procedures allow individuals to bring questions and issues to light without fear of retribution.

The audit committee is responsible for the appointment, compensation and oversee the work of the auditor. This is why auditing firms report directly to the audit committee, not management. Audit committees meet separately with external auditors to discuss matters that the committee or auditors believe should be discussed privately. The committee also review the proposed audit approach and handle coordination of the audit effort with internal audit staff, when applicable. When an internal audit function exists, the committee review and approve the audit plan, review staffing and organization of the function, and meet with internal auditors and management on a periodic basis to discuss matters of concern that may arise.

Benefits of Audit Committees

Sound managerial acumen requires matching of key tasks with people possessing the requisite skills to attain set targets. Audit committee helps in achieving this in numerous ways. First it assists in time leverage. Secondly, audit committees help in improving the internal control system and should be accorded its prime place and properly designed to mitigate risk while at the same time supporting all aspects of the firms operations. Proper internal controls will lead to higher efficiencies in all processes, less waste of resources, more objective evaluation methods and more timely and accurate management measurements. This leads to process improvements and is an enviable role an effective audit committee can fill. Thirdly audit committees help to improve financial management. The audit committee focuses on the financial management and reporting of the firms operation. Financial management and reporting determine credit worthiness to outsiders and growth targets and successes to insiders. They are the key determinants in establishing the market value of the firm which is the ultimate scoreboard for management’s results. Audit committees also help to clarify the roles and responsibilities of the board of directors.

Remuneration Committee

The major function of the remuneration committee is to help the Board to develop and administer a fair and transparent process for setting policy on the overall strategy for human resources within the entity on matters relating to remuneration of board members, senior management and the entire work force in order to motivate, retain and attract the best talent in the market place in order to maximize shareholders wealth. The responsibilities of the committee consist mainly in determining, agreeing and developing the firm’s general policy on non-executive and senior management remuneration. Determine specific remuneration packages for executive directors but not limited to basic salary, benefits in kind, annual bonuses (if any), and performance based incentives, share incentives, pension and other benefits. Ensure the remuneration of directors are fair and reasonable. The disclosure of director’s remuneration is accurate, complete and fair. Ensure fair compensation to the entire work force in comparison with the local industries and the prevailing economic circumstances.
Financial Reporting Quality
Accounting quality as the precision with which financial reporting informs users and also meets their need in terms of timeliness, relevance, reliability, understandability and comparability about the present and serves as a future guide. In assessing reporting quality, a lot of parameters are used. This includes Accrual method, relevance, faithful representation, reliability, comparability, timeliness and understandability. The list is in-exhaustive. However, for the purpose of this study, we focus on decomposing accruals into discrentional and non-discrentional accruals. In other words accrual method is adopted for the study. Accrual and value relevance model is concerned with the earnings quality and is used to measure the scope of earnings management. The accrual model is based on the assumption that managers deploy accruals which they can exert influence on to massage earnings explicitly referred to as discrentional accruals. Examples of accrual models for measuring earnings quality are Healy, Jones, Modified Jones, Industry, and Deangelo. It is based on the assumption that earnings management mitigates and negatively affect quality of financial reports by making it unreliable for decision making. The major benefit of using abnormal accruals to estimate earnings quality is that it can be derived from financial statements and on using Regression models it can be used to evaluate the impact of firm’s characteristics on the extent of management of earnings. Most importantly, research premised on accrual to measure quality of earnings can be replicated. The major setback of the accrual method however is that it is cumbersome to separate accruals into its two components (discretional and non-discretional accruals). This study adopts accrual method because we are interested in the association of committee overlap with earnings management.

EMPIRICAL REVIEW
Audit committee play crucial role in the financial monitoring of the firm. It provides oversight actions over accounting policies and judgments, as well as the quality of the overall financial statements (Blue Ribbon Committee (1999); Security and Exchange Commission Code (SEC), 2011). The SEC (2011) maintained that, to carry out the assigned tasks of monitoring financial reporting diligently, significant accounting sophistication is expected. This implies assessing the reasonableness of complex financial matters such as firms accounting reserves, and management's handling of proposed audit adjustments suggested by the external auditors (DeFond, Hann, & Hu, 2005). Audit committee is a tool available to the board of directors to curtail conflicts of interest occurring between managers and shareholders (Menon & William, 1994). The global acceptability of the inauguration of audit committees supports the significance of an audit committee as a governance system (Saidin, 2007). According to Cadbury Report in the UK (1992), audit committees would be a crucial control process that protect shareholders and ensure transparent reporting and improve audit quality. The membership of an audit committee, particularly attributes of members, has been perceived as a determinant of audit committee effectiveness (Lindsell, 1992; Kalbers & Fogarty, 1993; DeZoort, 1998). According to DeZoort & Salterio (2001), efficacy of an audit committee are potentially affected by its members’ collective characteristics of being qualified and well informed, with a majority of independent members who meet frequently and have the powers to protect stakeholder interests through their diligent oversight efforts. Chandar et al (2012) examined the association between director overlap (defined as overlapping membership on the compensation and audit committees) and incentive-based compensation schemes of firms between 2003–2005, the result showed that cash compensation plans are not associated with director overlap, while option compensation is negatively associated with director overlap. The results suggest that knowledge of misstatement-causing effects of option-based rewards may spill over from audit committee to compensation committee, which may lead compensation committee to lower option-based component of executive pay. The study suggests that overlapping of compensation and audit committee may be beneficial to the design of compensation schemes because of the knowledge spillover between the two committees. Cullian et al (2010) examined whether audit committee members of a board improve financial reporting quality if they are also on their organization’s compensation committee.
Using discretionary accruals as a proxy for financial reporting quality, the study found that firms with overlapping committees have improved financial reporting quality than those without such overlap. Evidence for this is stronger in cases where managers tend to manage earnings upwards in order to meet or beat earnings benchmarks. Study also suggested that beneficial effect of the existence of overlapping committees is adversely affected by the equity holdings of directors with overlapping memberships. Also the beneficial effect of the existence of overlapping committees is negatively impacted by the share ownership of executives with overlapping memberships. Newman & Mooze (1999) the link between compensation and share return is significantly lower in firms whose compensation committee has at least one inside director than for those whose compensation committee consist basically of external directors.

Anderson & Bizjak (2003) no evidence that fraction of external independent directors on the compensation committee produce larger magnitude of pay performance sensitivity. Sun & Cahan (2009) positive relation exist between CEO cash rewards and accounting earnings are stronger (weaker) for firms with high (low) compensation governance quality. Sun et al. (2009) future firm performance is significantly positively associated with share option grants as compensation committee quality increases. Liazo & Hsu (2013) and Higs (2003) suggests that overlapping committee does not improve reporting quality while Chander et al (2012) positive association exist between overlapping audit and compensation committee with reporting quality. These mixed results call for further empirical research hence the need for this research. There is also the controversy that unless audit committee members serving on the compensation committee have good comprehension of compensation objectives, they cannot execute monitoring actions consistent with managers reporting incentives Liao and Hsu (2013). There is the potential risk that committee overlapping by independent directors can lower their effectiveness to monitor due to over commitment (Ferris et al. 2003 and Laux & Laux, 2009). In addition, studies also confirm overlapping of committees might encourage compensation committees to reduce the audit committee’s monitoring responsibilities by designing low incentive-based compensation.

A potential benefit of ceding board responsibilities to committees is that using smaller units can ameliorate problems plaguing larger groups such as delays (Laux & Laux, 2009). However, effective information dissemination depends on availability of adequate information and facts (Nowak & McCabe, 2003), overlapping permit members to obtain facts that can improve coordination between compensation and audit committees (Hermanson et al., 2012). It is therefore plausible that audit committee members who also sit on compensation committee possess proper understanding of the managements’ reward incentives while making accounting choices. It is believed incentive-based rewards motivate managers to indulge in accounting manipulation to optimize personal wealth, coordination between audit and compensation committees should curtail activities.

**RESEARCH METHODS**

**Data and Sample**

The study considered the entire food and beverage firms listed on the Nigeria Stock Exchange between 2011 and 2014. The sample selected based on census method consisted of only firms with complete financial statements and this represents 50 percent of the population. The research was based on secondary data obtained from the firms’ financial statements and the Nigeria stock exchange fact book and websites of the sampled firms.

**Hypothesis Testing**

Test of hypothesis is carried out using Panel Least Square. The study pooled the time series and cross sectional data in testing the hypothesis using the OLS regression. The quality of financial reporting is Reliability which is proxied by accrual quality otherwise earnings quality. Burilovich & Kattelus (1997) suggest accounting accruals remains the favored instrument for creative accounting because of ease of manipulation by management.

The total cash flow method adopted by this study has been argued by McNicholas (2000) as flexible and allows for control of administration and external audit. Positive accrual quality index suggests that the firm is engaging in income reducing activities and a negative accrual index show income increasing.
strategies. That is, the higher the index of accruals, the poorer the quality of financial reporting and the closer the index to zero, the better is the quality of financial reporting.

**Variables**

**Dependent variables**

The dependent variable in the study is reporting quality measured by Reliability. The reliability of total accrual is a measure of Financial Reporting Quality (FRQ) which relies on estimates of discretionary cash flows using techniques commonly employed in the literature. We carried out calculation of total accrual using:

$$TA_{it} = (\Delta CA_{it} - \Delta CL_{it} - \Delta Cash_{it} + \Delta DEBT_{it} - DEP_{it})/(A_{it-1})$$

where $TA_{it}$ is total accruals, measured as the change in non-cash current assets minus the change in current non-interest bearing liabilities, minus depreciation and amortization expense for firm $i$ in year $t$, scaled by lagged total assets ($Assets_{i,t-1}$).

Next we carried out separation of total accruals by decomposing into discretionary and non-discretionary accruals using Jones Modified model

$$\Delta WC_t = b_0 + b_1 CFO_{t-1} + b_2 CFO_t + b_3 CFO_{t+1} + b_4 \Delta Rev_t + b_5 PPE_t + \epsilon_t$$ (1)

Where: $\Delta$ changes in working capital in year $t$, $\Delta WC_t = (\Delta Current\ Assets - \Delta Current\ Liabilities) - \Delta Cash$

$CFO_{t-1}$ represents ‘Cash flows from operations in year $t - 1’$, $CFO_t$ represents ‘Cash flows from operations in year $t’$

$CFO_{t+1}$ represents ‘Cash flows from operations year in year $t + 1’$, $\Delta Rev_t$ represents ‘Sales in year $t - Sales\ in\ year\ t - 1’$, $PPE_t$ represents ‘Gross property, plant and equipment in year $t’$.

All variables shown above are scaled by total assets.

**Independent Variable**

The independent variable in this study is audit committee and represented by overlapping membership of audit committee and compensation committee (ORCM)

**Control variable**

The control variables in this study are audit committee size, firm size, audit committee meetings, firm age and audit committee tenure

Audit committee size is given the acronym (NACM) and is defined as the number of audit committee members.

Firm size (FMSIZE) is measured as log of book value of the total assets of the firm at the end of the financial year.

Firm age (FAGE) the number of years the firm’s shares has been publicly traded.

Audit committee tenure (TACM) – the number of years the audit committee members have served as directors of the board

NBACM: Number of attendance at audit committee meetings

FE: Financial expertise of audit committee members

**Model Specification**

To achieve the objective of this study, the following mathematical equations were developed to investigate the influence overlap of audit and compensation committee on reporting quality of food and beverage firms in Nigeria.

$$ORCM = f(RPQ)$$

$$ORCM = f(FE, NACM, TACM, FMSIZE, FAGE, NBACM, \ldots) \quad (1)$$

$$RPQ = f(FE, NACM, TACM, FMSIZE, NBACM, ORCM, \ldots) \quad (2)$$

Models 1 and 2 can now be stated explicitly in the following form:

$$RPQ_{it} = \lambda_0 + \lambda_1 FE_{it} + \lambda_2 NACM_{it} + \lambda_3 TACM_{it} + \lambda_4 FMSIZE_{it} + \lambda_5 FAGE_{it} + \lambda_6 NBACM_{it} + \lambda_7 ORCM_{it} + \mu_{it} \quad (3)$$

$$RPQ_{it} = \beta_0 + \beta_1 FE_{it} + \beta_2 NACM_{it} + \beta_3 TACM_{it} + \beta_4 FMSIZE_{it} + \beta_5 FAGE_{it} + \beta_6 NBACM_{it} + \beta_7 ORCM_{it} + \mu_{it} \quad (4)$$

Using LSDV (Panel Data Estimation), equation 3 in model A above becomes:
ORCMit= $\alpha_0 + \alpha_1 FE_{it} + \alpha_2 NACM_{it} + \alpha_3 TACM_{it} + \alpha_4 FMSIZE_{it} + \alpha_5 FAGE_{it} + \alpha_6 NBACM_{it} + \alpha + Q_1 \varepsilon_1 + Q_2 \varepsilon_2 + \ldots + Q_{n-1} \varepsilon_n + \mu_{it}$ ..........................(5) and equation 4 in model A above also becomes:

RPQ_{it} = $\beta_0 + \beta_1 FE_{it} + \beta_2 NACM_{it} + \beta_3 TACM_{it} + \beta_4 FMSIZE_{it} + \beta_5 FAGE_{it} + \beta_6 NBACM_{it} + Q_1 \varepsilon_1 + Q_2 \varepsilon_2 + \ldots + Q_{n-1} \varepsilon_n + \mu_{it}$ ..........................(6)

Where $j= n = 7$

The parameters of the model are such that:

$\beta_1, \beta_2, \ldots, \beta_6 > 0; \beta_7 < 0$

$\alpha_1, \alpha_2, \ldots, \alpha_6 > 0; \alpha_7 < 0$ and

$Q_1, Q_2, \ldots, Q_6 > 0; Q_7 < 0$

$i = 1, 2 \ldots, 6$ and $t = 1, 2, \ldots, 4$ (2011-2014)

RESULTS

Table 1

Dependent Variable: FINQUALITY
Method: Panel Least Squares
Date: 05/28/16   Time: 08:58
Sample: 2011 2014
Periods included: 4
Cross-sections included: 4
Total panel (unbalanced) observations: 15

<table>
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<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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<tbody>
<tr>
<td>C</td>
<td>0.980138</td>
<td>10.23889</td>
<td>0.095727</td>
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<td>NACM</td>
<td>-0.043500</td>
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<td>FSIZE</td>
<td>-1.264145</td>
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<td>FAGE</td>
<td>0.295196</td>
<td>0.561601</td>
<td>0.525634</td>
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<td>NBACM</td>
<td>0.095748</td>
<td>0.228379</td>
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<td>ORCM</td>
<td>-0.127433</td>
<td>0.578612</td>
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<td>TACM</td>
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<td>0.818830</td>
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<tr>
<td>FE</td>
<td>0.125999</td>
<td>0.360592</td>
<td>0.349423</td>
<td>0.7444</td>
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</table>

Effects Specification

| R-squared | 0.397332 | Mean dependent var | 3.70E-18 |
| Adjusted R-squared | -1.109337 | S.D. dependent var | 0.420847 |
| S.E. of regression  | 0.611219 | Akaike info criterion | 1.998187 |
| Sum squared resid    | 1.494354 | Schwarz criterion   | 2.517424 |
| Log likelihood       | -3.986406 | Hannan-Quinn criter. | 1.992657 |
| F-statistic          | 0.263716 | Durbin-Watson stat  | 3.257965 |
| Prob(F-statistic)    | 0.960256 |                    |          |

H01: Overlapping Membership of audit committee has no negative association with financial report quality

The panel analysis result in Table 1 shows a positive intercept of 0.980138, which means that the average financial reporting quality is positive in the absence of Financial Experts on Audit Committee, however,
the result indicates a negative coefficient of -0.127433, which means that every unit increase in overlapping of remuneration committee membership the financial report quality will decrease by 0.127433. This means that overlapping with remuneration committee membership has a negative association with the financial report quality; however, this association is insignificant as is shown by the p-value of 0.8365.

Since the concern of this study is not whether the association is significant or not rather it is on whether there is a positive association or not, so we conclude that overlapping with remuneration committee membership has a negative association with financial report quality. Therefore, we reject the hypothesis that there is no negative association between overlapping with remuneration committee membership, and conclude that overlapping with remuneration committee membership has a negative association with financial report quality.

**H02: Overlapping of audit and compensation committee does not reduce abnormal accruals.**

Table 2

<table>
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<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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<td>C</td>
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<th>Effects Specification</th>
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<th>Rho</th>
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<td>Cross-section random</td>
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<td>Idiosyncratic random</td>
<td>0.231432</td>
<td>0.7157</td>
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**Weighted Statistics**

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<thead>
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<th>Mean dependent var</th>
<th>S.D. dependent var</th>
<th>Sum squared resid</th>
<th>Durbin-Watson stat</th>
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<td>R-squared</td>
<td>0.115021</td>
<td>0.110626</td>
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<tr>
<td>Adjusted R-squared</td>
<td>0.051808</td>
<td>0.229260</td>
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<tr>
<td>S.E. of regression</td>
<td>0.223242</td>
<td>0.697719</td>
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<tr>
<td>F-statistic</td>
<td>1.819589</td>
<td>2.104120</td>
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<tr>
<td>Prob(F-statistic)</td>
<td>0.198777</td>
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**Unweighted Statistics**

<table>
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<th></th>
<th>Mean dependent var</th>
<th>S.D. dependent var</th>
<th>Sum squared resid</th>
<th>Durbin-Watson stat</th>
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<tr>
<td>R-squared</td>
<td>0.150052</td>
<td>0.178001</td>
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<tr>
<td>Sum squared resid</td>
<td>0.869478</td>
<td>1.688466</td>
<td></td>
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The random Effect panel analysis result in Table 2 shows a positive intercept of 0.279627, which means that the average financial reporting quality is positive in the absence Overlapping of Audit Committee, however, the result indicates a negative coefficient of -0.09565, which means that every unit increase in
overlapping audit committee the financial report quality will decrease by 0.08744. This means that overlapping audit committee has a negative association with the financial report quality; however, this association is insignificant as is shown by the p-value of 0.8365 in table 1 but our focus in this hypothesis is not whether the association is significant or not rather it is on whether there is a positive association or not, so we conclude that overlapping of audit committee has a negative association with financial report quality. The implication is that abnormal accruals are not mitigated by overlap of the committee membership as reporting quality declines with increase in overlap Therefore, we reject the hypothesis that there is no negative association between overlapping audit committee, and conclude that overlapping audit committee has a negative association with financial report quality.

**DISCUSSION OF FINDINGS**

The aim of the study was to ascertain if overlap of audit committee membership with remuneration committee have any negative association with financial reporting quality and also if it reduces abnormal accrual. Findings confirm that overlap membership of the two committees causes reporting quality to decrease. The reason attributable to this findings may not be farfetched. First it may be reasoned that membership of both committees may saddle the individuals with more responsibilities that affect their focus on the core audit committee functions. Secondly, serving in both committees may affect their independence as compensation forms a major cost line that must be reflected in accounting reports. The result of our study collaborates the bonus compensation hypothesis embedded in Positive Accounting theory. The hypothesis states that Managers with bonus compensation tied to performance may influence financial reports such that current earnings will be raised to facilitate increase in compensation accruable to them. Serving on both committees facilitate the accomplishment of this goal causing a decline in accounting quality. The finding of this study further collaborates the agency theory which espouses principal agent’s conflicts whenever owners delegate responsibilities. The overlap offers opportunities for directors to constrain the monitoring function of the audit committee to satisfy selfish motives which conflicts with the interest of shareholders and collaborates agency theory. The second aim of the study was to find out the association of overlap of audit and compensation committees with abnormal accruals in others words earnings management. The study found out that overlap of both committees does not improve reporting quality and abnormal accruals are not reduced. Reduction in abnormal accruals (discretionary accruals) increases reporting quality and increase in abnormal accruals. Our study confirms reduction in reporting quality in other words increase in abnormal accruals. The implication is that committee overlap does not mitigate earnings management and does not improve reporting quality.

**CONCLUSION**

We conclude based on the findings of the study that committee Overlap does not improve reporting quality. This is in sync with prior findings by Liazo & Hsu (2013) and Higs (2003) that overlapping committee does not improve reporting quality. The study also collaborate Laux & Laux and Ferris et al (2003) which found that there is the potential risk that committee overlapping by independent directors can lower their effectiveness to monitor due to over commitment .Our study confirmed a decline in reporting quality due to overlap of audit and compensation Committees membership. Additionally, overlapping of committees can motivate compensation committees to mitigate audit committee’s monitoring responsibilities by designing small incentive reward systems. There is the possibility that our findings may have been influenced by the adoption of International Financial Reporting standards (IFRS) within the years of study. It is possible that due to the dearth of professionals knowledgeable in preparing IFRS based accounting reports earnings management increased thereby shadowing the effect of committee overlap and reducing reporting quality. Secondly, inflation may also play a significant role as galloping inflation which is consistently ravaging the Nigerian economy could cause increase in abnormal accruals thus mitigating reporting quality and shadowing the positive effects of committee overlap.
RECOMMENDATION
Based on findings of this study we recommend that the independence of audit committee members should be maintained without making them members of any other committee. Also, regulatory sanctions should be introduce to deter firms from committee overlap as there is currently no legislation to that effect. Corporate control mechanisms should be tightened and new initiatives introduced to curtail earnings management and improve reporting quality. This can be achieved through the amendment of the relevant section of Company and Allied Matters ACT (CAMA 2004).

REFERENCES


APPENDIX
Table 3
Dependent Variable: Abnormal_Accruals
Method: Panel Least Squares
Date: 06/26/16 Time: 23:21
Sample: 2011 2014
Periods included: 4
Cross-sections included: 4
Total panel (balanced) observations: 16

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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<tbody>
<tr>
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<td>0.110930</td>
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Effects Specification

Cross-section fixed (dummy variables)

| R-squared | 0.424063 | Mean dependent var | 0.178001 |
| Adjusted R-squared | 0.214632 | S.D. dependent var | 0.261149 |
| S.E. of regression | 0.231432 | Akaike info criterion | 0.161249 |
| Sum squared resid | 0.589171 | Schwarz criterion | 0.402683 |
| Log likelihood | 3.710006 | Hannan-Quinn criter. | 0.173613 |
| F-statistic | 2.024829 | Durbin-Watson stat | 2.500641 |
| Prob(F-statistic) | 0.160255 |

Table 4
Correlated Random Effects - Hausman Test
Equation: Untitled

Test cross-section random effects

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<th>Chi-Sq. d.f.</th>
<th>Prob.</th>
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Cross-section random effects test comparisons:

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<td>0.8704</td>
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</table>

Cross-section random effects test equation:

Dependent Variable: ANA
Method: Panel Least Squares
Date: 06/26/16  Time: 23:22
Sample: 2011 2014
Periods included: 4
Cross-sections included: 4
Total panel (balanced) observations: 16

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<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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</thead>
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<td>-0.981574</td>
<td>0.3474</td>
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</tbody>
</table>

Effects Specification

Cross-section fixed (dummy variables)

<table>
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<tr>
<th>Metric</th>
<th>Value</th>
<th>Description</th>
<th>Prob.</th>
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<td>Mean dependent var</td>
<td>0.178001</td>
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<tr>
<td>Adjusted R-squared</td>
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<td>F-statistic</td>
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<td>Prob(F-statistic)</td>
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