



# **EFFECT OF FIRM SIZE AND BOARD COMPOSITION ON THE FINANCIAL REPORTING QUALITY OF LISTED OIL AND GAS COMPANIES IN NIGERIA**

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## **ABSTRACT**

This study was aimed This study is aimed at examining the influence of firm size and board composition on financial reporting quality (FRQ) of quoted Oil and Gas companies in Nigeria. The study covered a period of eleven (10) years from 2011-2020. And a sample nine (9) out of the ten (10) quoted Oil and Gas firms in Nigeria were selected. Data was collected through secondary where the annual financial statements of the selected quoted Oil and Gas firms were obtained and analyses using descriptive statistics and multiple regression model. The results revealed that company size has a negative impact on the financial reporting quality of oil and gas companies registered in Nigeria. And the board composition also has a negative and significant relationship with quality of the financial reports of oil and gas companies in Nigeria. Hence, recommendations are made that the management of listed oil and gas companies in Nigeria should continue to expand their assets through procurement of multiple assets and use them for more revenue and expansions. This can increase your company and reduce earnings management and improve the quality of financial reporting.

**Keywords:** Financial reporting quality (FRQ), board size, board composition, earnings management, Oil and Gas firms, annual financial reports.

## **1. INTRODUCTION**

The global collapse of the Enron, WorldCom and Toshiba Company scandals in 2015 and the accounting scandal affecting Cadbury Nigeria in 2009 have reiterated the need for an investigation into the quality of financial reporting and increased the requirement for better governance mechanisms around the world. Managers exercise



opportunistic attitude, either to benefit private lawyer to influence contracting agreement, or acting on what is called a big bath.

The quality of financial reporting has always been interesting problems among the stakeholders. The reason for this is financial reporting is the most important tool for communicating financial report to external users (Johnson, 2005). Therefore, the information contained in the financial statements should not be misleading but neutral, faithful, reliable and verifiable to serve their purpose (IASB, 2008). The financial reports are unarguably influenced by some corporate characteristics like firm size and board composition.

The size of a company may be an indication of some of the characteristics of the business such as competitive advantages, and its ability to incur the costs of production and distribution of financial information. Large companies can spend more to produce and distribute information. Therefore, larger companies tend to be more informative and pay more attention to improving the quality of this disclosure compared to smaller companies because of the financial resources that allow them to publish (Francis, Michas, & Scott, 2010).

Board composition consists of non-executive directors who have high caliber and vast experience, integrity and credibility; they are key members of the board and make independent decisions, as well as necessary scrutiny to the proposal and action of management and executive directors. Non-executive Directors better control the behavior of opportunistic behavior exercise by management, thereby improving the quality of financial reporting (Shehu, 2013). Non-executive directors as internal control mechanisms deal with the improvement of corporate governance mechanisms, which increase the value of the company and maximize shareholder wealth in the corporation. Non-executive directors are becoming a target of public interest for their role as effective monitors in policing management discretionary behaviour (Wenge, 2014).

The motivation for this study is that, Nigeria is one of the largest economies in Africa countries and population and the Oil and Gas firms is among the largest sector in the Nigerian economy producing fuel and gas products, this sector plays an important role in the development of Nigerian economy at large.

This study is aimed at examining the influence of firm size and board composition on financial reporting quality of quoted Oil and Gas firms in Nigeria. The study covered a period of eleven (10) years from 2011-2020.



## **Research Questions**

In line with the research objective, the following research questions were formulated.

- i. Does firm size influences financial reporting quality of listed Oil and Gas firms in Nigeria
- ii. Does board composition influence financial reporting quality of listed Oil and Gas firms in Nigeria.

## **2. LITERATURE REVIEW**

This Section broadly covered three aspect of conceptual framework, empirical literatures and the theoretical framework. The conceptual framework discussed some key concepts related to the variables of the study. The empirical review was also made to show the relationship between the dependent variable and the explanatory variables of the study. Finally, the section discussed the theoretical framework which underpins the study.

### **Conceptual Review**

This sub-section discussed the concepts of firm size, board composition and financial reporting quality.

#### ***Firm Size***

The size of the firm is one of the decisive factors in the achievement of efficiency in its operations. In these days, large-scale production is considered to bring most economic results by the way of lower costs and higher returns. Therefore, there has been a tendency towards increase in the size of the industrial units in order to organize mass production and bulk sales in diversified markets. Akhalumeh (2017) argued that theoretically, it is expected that larger companies, because of their more abundant resources available to them, by reason of their size are better positioned to acquire better audit services.

In addition, the factors affecting firm size are employees and sufficient resources for a functioning business (Schiner, 1996). He also suggested that companies can expand the communities in which they work, especially when they are in remote areas. Certain factors that may indicate that the company has a large operating community include; it grows faster than the community workforce.



### ***Board Composition***

Board composition is the combination of both executives and non-executives' directors as members of the board. The code of corporate governance for Nigerian firms provided that at least two (2) non-executive board members should be independent directors who do not represent any particular shareholder interest and hold no special business interest with the firm. They must also be appointed by the firm on merit. In addition, the number of non-executive directors should not be more than that of executive directors' subject to a maximum board size of twenty (20) directors. The independent directors must be solely outside directors who have no other relationship with the companies except being on the board of directors. They must also be appointed by the firm on merit. The independent directors must be solely outside directors who have no other relationship with the companies except being on the board of directors (Sec, 2003).

Board composition also refers to the structure of the board of directors regarding the ration of nonexecutive directors to total number of directors. Like in most works, in this research the term is used interchangeably with independent directors to mean nonexecutive external directors, who do not represent any particular shareholder interest and hold no special business interest, relative to board members (Beasley, 1996).

In addition, nonexecutive directors as outside members do not play a direct role in the management of the company; their existence may provide an effective monitoring tool to the board and thus produce higher quality financial reports (Hashim and Devi, 2008). Fama and Jensen (1983) claim that board of directors is the most important mechanism in internal governance structure and its effectiveness in the monitoring process lies in its composition.

### ***Financial Reporting Quality***

Financial reporting quality is a broader concept that not only refers to financial information, but also to disclosures other non-financial information useful for decision making included in the report. Therefore, the FASB and IASB (2008) explicitly express their desirability of constructing a comprehensive measurement tools to assess the quality of financial reporting considering all dimensions of decision usefulness. Hence, their measurement tool considers all the qualitative characteristics, because these characteristics determine the decision usefulness of financial reporting information (IASB, 2008). The issue of quality in financial



reports is of great concern not only for the final users but for the whole society or stakeholders as it affects economic decisions which may have significant impact.

Financial reporting quality (FRQ) reduces information risk, liquidity and limits managers discretionary power to their own advantage and help them make effective investment decisions (Chen et al., 2011). In particular, FRQ has the advantage of minimizing asymmetric information problems from opposing institutions (Rajgopal & Venkatachalam, 2011). Companies reporting higher quality financial information will provide better information to the different market agents, enabling them to have better performance markets and higher levels of information (Jo & Kim, 2007). Chen et al. (2011) found that FRQ had a positive impact on the efficiency of private equity investments in emerging markets, and this effect increased bank financing and reduced incentives to reduce revenue from tax evasion.

### **Measures of Financial Reporting Quality**

The purpose of the model is to separate accruals of deferred components that measure the income accrual associated with the company's basic income abnormal accruals, which are assumptions to represent discretionary delineations or the result of deliberate manipulation of accounting or unintended. Jones (1991) described earnings and depreciation of working capital, depending on sales growth and equipment and equipment (PP & E). The Jones model's explanatory power is weak, only explaining a small plant change in the delimitations. Consistent with the assumption that residues are wiser, (Xie, 2001). Abdelghany (2005) investigated a study on measuring the quality of earnings in Qatar for the period of 1999 to 2003. Using a sample of 90 companies listed in the NYSE. The analysis is directed to reach a general assessment of the quality of earnings if there is a complete consistency among three approaches and if not the quality of earnings is questionable and needs further analysis and investigations.

### **Review of Empirical Studies**

Several journals and scholarly publications were reviewed, including the work of Watts & Zimmerman (1990), Naser & Mora, 1994), Naser & Mora, 1994).

### ***Firm Size and Financial Reporting Quality***

Watts and Zimmerman (1990) examined positive accounting theory: A ten-year perspective. They argue that larger firms are likely to show more information in order to improve the confidence of stakeholders and reduce political cost. Companies can



respond to these political actions, avoiding concerns that can be caused by the significant disclosure of facts. For this reason large companies publish less detailed information in their annual reports to avoid attention (Wallace, Naser & Mora, 1994).

Wallace and Naser (1995) examined firm specific determinants of the comprehensiveness of mandatory disclosure in the corporate annual reports of firms listed on the stock exchange of Hong Kong using indexes to measure the mandatory disclosure. They recognize that while the positive relationship between the size of the company and the quality of the financial statements is enormously supported, the theoretical basis is unclear. The direction may be positive or negative. Positively, since large companies generally operate in large geographic areas and deal with many products, they have several components, generally with well-built information systems that allow them to monitor all financial and non-financial information operationally, tactically and strategically. With this well-structured internal reporting system, the additional cost to external users will be minimal.

Lokman, Cotter, and Mula (2012) conducted a study on corporate governance quality, incentives factors and Voluntary corporate governance disclosure in Annual reports of Malaysian public listed companies for the period of 2007-2008. The sample of the study consists of 350 companies out of 987 companies as population of the study and data were analyzed based on compliance by the industry from panel A and B. The voluntary disclosure was measured based on the international best practice (IBP) component of the corporate governance scorecard and corporate governance quality was measured using a comprehensive index.

Shehu and Farouk (2014) investigated the impact of firm attributes on earnings quality of listed oil and gas companies in Nigeria for the period of 2007 to 2011. The residual from modified Jones model by Dechow *et al.* (1995) was used to measure earnings quality. The study adopts multiple panel regression as a technique of data analysis for the sample of 7 oil and gas companies in Nigeria. The findings reveal that firm size has a significant but negative influence on earnings quality of listed oil and gas companies in Nigeria.

Albitar (2015) investigated firm characteristics, governance attributes and corporate voluntary disclosure: A study of Jordan listed companies for the period of 2010-2012. The corporate voluntary disclosure was measured using unweighted disclosure index consisting of 63 voluntary items was developed to assess the level of disclosure of 124 listed companies on ASE. Univariate and Multivariate analysis were applied



as technique of data analysis. The findings of the study show that the level of voluntary disclosure in Jordan companies is low, although there is a significant increase in the level of voluntary disclosure from year to year.

Hassan (2015) investigated the effect of international financial reporting standards adoption on earnings management in listed deposit money banks in Nigeria. The study covered a period of six (6) years (2008 to 2013) and covered all the listed deposit money banks in Nigeria. Naser & Mora, (1994) conducted a study of quoted pharmaceutical firms in Nigeria on the impact of corporate attributes on share value. A total of 5 pharmaceutical firms were studied over a period of 10 years from 2004 to 2013. Multiple regression was used as techniques of data analysis. The study found positive and statistically significant relationship between firm size on share value under the period of the study suggesting the larger the total assets of pharmaceutical firms are, the higher the share value can be maximized. However, the study suffers from inadequate representation of firms in order to make general recommendations for policy implication derivable from the findings.

However, the study is restricted to a sub-sector of manufacturing companies which could not be used to generalize the finding in the sector as a whole because earnings management is very sensitive to address in any organization.

### ***Board Composition and Financial Reporting Quality***

The composition of the board of directors is expected to play an important role in aligning the interest of the managers and that of the shareholders. Corporate governance structure in Nigeria requires that in composing the board of directors there should be representation from an independent person who does not have any business with the firm and his shareholding if any should not exceed 0.05%. Also, these independent directors must be appointed based on experience and competence (Shehu & Abubakar, 2012). In a study conducted by (Shehu, 2013) in Nigerian manufacturing sector between the periods of 2008-2010 using a sample of 25 firms where they use OLS regression technique found that there is a significant relationship between independent directors and financial reporting quality.

Beasley (1996) investigated the empirical analysis of the composition of the Board of Directors and the fraudulent financial statements during the period of 1980-1991. The sample of the study consists of 150 public traded firms and the data were analyzed using logit cross-sectional regression analysis. Financial statement fraud is measured using dichotomous values which involve estimation based on a choice



sample in which 50% of the firms have experienced financial statement fraud and 50% otherwise. The result of logit regression analysis of 75% fraud and 75% non-fraud, firms indicate that no fraud firms have boards with significant higher percentage of outside members than fraud firms. In addition, as outside director ownership in the firm and outside director tenure on the board increase and as the number of firms held by outside directors decreases the likely hood of financial statement fraud decreases. Several policies were made regarding number of composition of non -executive on the board as provided in harmonized (Sec, 2003). Hence, this may render their findings obsolete.

Because the board of directors accepts their authority for internal control and other decisions of the company's shareholders (Beasley, 1996) states that the highest internal control and supervisory mechanism is the board of directors. The independence of the board of directors has been put forward by researchers to have an effect on the quality of financial reporting. One of the most important factors influencing the integrity of the financial accounting process involves the board of directors, whose responsibility is to provide independent oversight of management performance and to hold management accountable to shareholders for its actions (DeFond & Jiambalvo, 1994).

Klein (2002) examined whether board characteristics are related to earnings management among S&P 500 firms for fiscal 1992-93. Using a cross-sectional variant of Jones' (1991) model to capture abnormal accruals, she reports a significantly negative association between the incidence of abnormal accruals (suggesting earnings management) and (a) the percentage of outside directors on the board and (b) the fact that outsiders account for the majority of board members. This association is stronger using the majority-threshold measure than the actual percentage of outside directors, suggesting that majority rule efficiently drives board actions to promote FRQ, without precluding strategic input from specialized insiders.

Ibrahim (2013) investigated the impact of corporate governance mechanisms and earnings quality of Nigeria deposit money banks for the period of 2006-2011. The sample of the study consists of all 15 banks and the data were analyzed using multiple regressions as a techniques data of analysis. The study used exposit factor research design and the earnings quality was measured by discretionary loan loss provision.

Aliyu and Ishaq (2015) conducted a study on the impact of board composition, independent audit committee on financial reporting quality of oil marketing firms:





Evidence from Nigeria. Samples of 7 oil marketing firms were studied for the period of 2000-2011. A correlation research design was used and the data obtained was analyzed using multiple regression analysis. Financial reporting quality was measured using qualitative characteristics. The study used qualitative characteristics which may be biased due to the fact that measurement of this variable aggregates several items which may be weighted or unweighted.

Kamalluarifin (2016) carried out a study on influence of corporate governance and firm characteristics on the timeliness of corporate internet reporting by top 95 companies in Malaysia during a period of 2012. Using a questionnaire and the data were analyzed using the percentage of responses from those firms that provide information on their web site.

Akhalumeh *et al.* (2017) found a positive and significant association between board independence and audit quality of quoted firms in Nigeria. Shehu (2011) examines corporate governance and quality of financial reporting of Nigerian deposit money banks between the periods 2007-2009 found that corporate governance mechanisms have positively and strongly affected financial reporting quality.

Joseph and Ahmed (2017) investigated the impact of corporate governance and financial reporting quality in Nigeria for the period of 2006-2015. Using a sample of 40 companies and the data were analyzed by the used of multiple regression as a techniques of data analysis.

### **Theoretical Framework**

This section dealt with the theory used by the researcher to explain the influence of firm size and board's composition on financial reporting quality. The relevant theory is the opportunist theory.

The Opportunistic theory presupposes that managers, as short-term personal interests, encourage poor corporate structures to handle their own income (Klein, 2006 and Shehu, 2011). Opportunist managers develop a nose for opportunities and grab them. They are not concerned with how things have been done in the past or with what unintended or long-term effects their actions might create. They have an entrepreneurial bent, at the same time; by jumping at every chance they can make bad decisions.

The opportunist theory is applicable to the current study because with the self-interest emphasis of managers in making gains to themselves in the short run by manipulating



the financial reporting process, the corporate governance mechanisms of board composition is vital in taming such managerial practices in the companies. In fact, financial information quality is an ideal short run opportunity that managers often indulge in to manage revenue for their own advantage.

Therefore, the opportunistic theory is used to underpin the study to link firm size, board composition, and the FRQ of Oil and Gas firms in Nigeria.

### **3. RESEARCH METHODOLOGY**

This section covered the research design, population and sample size of the study; sources and method of data collection and techniques for data analysis, as well as variables of the study and their measurement.

The study adopted export-facto research design. The population of the study consist of Ten (10) listed oil and gas companies in the Nigerian Stock Exchange as at 31<sup>st</sup> December 2020. Hence, purposive sampling technique was used as sampling technique. However, after application of the purposive sampling technique, 2 companies were eliminated leaving 9 companies which were used as sample of the study.

**Table 1**  
**Population and Sample Size of the Study**

S/NO	Company Name	Listing Date	Sample Size of the Study
1	MOBIL PLC	2002	SELECTED
2	ARDOVA PLC	2007	NS
3	CAPOIL PLC	2005	SELECTED
4	CONOIL PLC	2003	SELECTED
5	ETERNA PLC	2001	SELECTED
6	JAPPAUL GOLD & VENTURE PLC	2006	SELECTED
7	MRS OIL NIGERIA PLC	2009	SELECTED
8	OANDO PLC	2000	SELECTED
9	RAK UNITY PET. COMPANY. PLC	1999	NS
10	SEPLAT PETROLEUM DEVELOPMENT COMPANY PLC	2009	SELECTED
11	TOTAL NIGERIA PLC	1998	SELECTED

Source: Compiled by the Researcher (2020)



The table 1 shows the company name, listening date and the companies that were selected. The selected These companies were selected based on the availability of information required.

### **Sources and Methods of Data Collection**

The study used panel data mainly from secondary sources because it is a quantitative study with positivism paradigm and the core of the data needed for analysis can be adequately and conveniently extracted from the audited financial reports and accounts of the selected firms within the period of the study. However, the adoption of the secondary source of data collection was prompted by the requirement of the model and tool of analysis. All the data in respect of both dependent and independent variables were extracted from the audited annual reports and accounts of the selected sampled firms.

### **Variables of the Study and their Measurement**

The variables of the study consist of dependent variable which is financial reporting quality measured by the Dechow and Dechev (2002). And the independent variable were firm size and board composition.

**Table 2**  
**Variables of the Study and their Measurement**

S/N	Variables	Definition and Measurement	Source
1	Financial Reporting Quality	Measured by absolute values of the residuals using Dechow and Dechev (2000) model.	Dechow and Dechev, (2002).
2	Firm Size	Measured by natural log of total assets	(Hassan, 2011; Abubakar, 2013 and Muhammad 2009)
4	Board Composition	Measured by the total number of non-executive directors to total number of the board of directors	(Hassan, 2011)

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Source: Compiled by the Researcher (2020).



### Model specification

The following models were used to empirically test the hypotheses formulated.

$$FRQ_{it} = \beta_0 + \beta_1 FSize_{it} + \beta_2 BComp_{it} + \varepsilon_{it} \dots \dots \dots (1)$$

Where:

FRQ= financial reporting quality

FSize= firm size

BComp= board composition

$\beta_0$ = Constant

$\beta_1$ -  $\beta_2$ = coefficient of the parameters

it= firm and year

$\varepsilon$ = error term

### 4. DATA ANALYSIS AND DISCUSSION

Multiple regressions were adopted as technique for data analysis. In addition, two steps regression was used in determining the quality of financial reports of the Nigerian listed oil and gas by adopting McNicholas (2002) model. Furthermore, regression analysis was employed to determine the nexus between board size, board composition and FRQ.

#### Descriptive Statistics

The table 3 shows a descriptive statistic where minimum, mean maximum, standard deviation, slope and kurtosis are described in the study.

**Table 3**  
**Descriptive Statistics**

Variable	Mean	Minimum	Maximum	Std. Dev	Kurtosis	Skewness
FRQ	.1388307	.000289	.60362	.1079191	2.22615	.508764
FSize	2.845966	2.67189	3.02756	.0820555	2.460708	.3385265
BComp	.4650539	.333333	.686667	.1324248	2.486162	.5210173

Source: Stata Output, 2020

Table 3 reports the descriptive statistics for the dependent and independent variables respectively (FRQ= Financial reporting quality, FSize =firm size, BComp= board composition). The results show that the financial reporting quality of the registered



oil and gas companies (FRQ) averages 0.1388307, with standard deviation of 0.1079191. The minimum and maximum figures of 0.000289 and 0.60362 respectively. This means that the average quality of the financial statements of listed oil and gas companies ranges from 0.1388307 to 0.1079191 and the deviation from both size is 0.0309116. The peak data is shown in the 2.2.1615 kurtosis, indicating that its value is not in the range of assumption of kurtosis. The 0.508764 skewness coefficient means that the data are positively inclined (most data are on the right side of the normal curve); so the data do not correspond to the assumption of a symmetric distribution

The table shows the size of company's average value of 2.845966 with 0.0820555 standard deviations; the minimum and maximum values are 2.67189 and 3.02756. This means that on average sample companies have different sizes and maturity levels. This shows that the averages are widespread since the standard deviation is lower than the mean value. The peak data are shown in a kurtosis figure of 2.460708, indicating that the coefficient of kurtosis corresponds to the assumption of normal distribution. The 0.3385265 skewness coefficient implies that the data are positively inclined (i.e. the data are on the right side of the normal curve), which means that the data does not correspond to the assumption of a symmetric distribution.

In addition, the table, shows average board composition of 0.4650539 with standard deviation of 0.1324248 and the minimum and maximum values were 0.333333 and 0.686667. This means that on average 47% of the board of Nigeria's oil and gas companies are non-executive and 53% are executive directors. The deviation from both sides of the average is 0.3327. This shows a widespread spread of data from the average because the average value is high compared to the standard deviation. The value of 2.686162 of kurtosis indicates that most values are higher on average and the data do not correspond to the normal distribution assumption; the value of Skewness 0.5210173 means that data is positively sloping (ie most data are on the right side of the normal curve), which means that the data does not correspond to the assumption of a symmetric distribution.

### **Normality Test**

Examine whether the variable data from the study is normally distributed or not Shapiro wilk test was conducted in the following table:



**Table 4**  
**Normal Data Test**

Variables	W	V	Z	Probability
FRQ	.46291	48.029	8.634	0.00000
FSIZE	.96104	3.484	2.783	0.00269
BCOMP	.96020	3.559	2.831	0.00232

Source: Stata Output, 2020

In normal Shapiro-Wilk (W) studies, the null hypothesis principle is used to test variables from a normally distributed population (null hypothesis of the test is that the data is distributed normally). Section 4.2. The table shows that the data of all the research variables did not follow the normal distribution, since the p-value of the test statistic (Z-value) was statistically significant at 1% and 5% significance level (for all variables) except for the size of firm. Thus, null hypothesis (ie data that is usually distributed) is discarded at the 1% significance level. This means that the data do not follow normal data distribution of the kurtosis. Hence, Guasian (1929) and Shao (2003) theorem show that the normality of data does not affect the estimated statistical estimates.

### **Correlation Matrix**

The table shows the correlation statistics in which the independent variable and dependent variables are analyzed.

**Table 5**  
**Correlation Matrix**

Variables	FRQ	FSIZE	BCOMP
FRQ	1.0000		
FSIZE	0.3581	1.0000	
BCOMP	0.4603	-0.3325	1.0000

Source: Output Stata, 2020

The results in the table 5 show the relationship between financial reporting quality (FRQ) and all pairs of independent variables individually between themselves and cumulatively with the dependent variable (FRQ) of the study. The correlation result shows that all the explanatory variables are positively and strongly associated with



explained variable. The table shows that financial reporting quality is positively associated with firm size at 36%. This signifies that the larger the firms the more reliable the content of their financial statements. Table 5 shows that there is positive association between FRQ of listed oil and gas companies and board composition of the sample firms, from the correlation coefficient of 0.4603. This relationship implies that as the proportion of non-executive directors to total board members increases the financial reporting quality will also improve.

### **Regression Results**

This section presents the regression results of the relationship between the dependent variables (FRQ) and all the independent variables of the study (Firm Size and Board Composition,). This is followed by analyzing and discussing the relationship between the dependent variables and the individual variables individually and collectively.

The summary of the regression results obtained from the parsimonious model of the study ( $FRQ = \beta_0 + \beta_1 FSize_{it} + \beta_2 BComp_{it} + e_{it}$ ) is presented in table 6.

**Table 6**  
**Regression Results**

Variables	Coefficients	z-values	p-values
FSIZE	-.2659819	-3.94	0.000
BCOMP	-.4165284	-4.57	0.000
Intercept	38.7944837	2.03	0.001
R <sup>2</sup>			0.63
Wald Chi Square			210.17
Wald Chi Sig			0.0000

Source: Stata Output, 2020

The cumulative explanatory power which is R<sup>2</sup> (0.63) 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 63% of total variation in financial reporting quality of listed oil and gas companies is caused by the collective effort of firm size and board composition. 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 coefficient of 210.17 and wald chi sig of 0.0000 which is statistically significant at 1% level of significance.

### ***Firm Size and Financial Reporting Quality***

The regression result reveals that firm size has a z-value of -3.94 with coefficient of -.265982 and a probability of 0.000, which is 1% level of significance in explaining earnings quality of listed oil and gas companies in Nigeria. This signifies that, large firms have stronger desires and are more likely to manipulate earnings to keep consistent earnings. This implies that oil and gas companies report good and reliable information in their audited financial statements.

### ***Board Composition and Financial Reporting Quality***

Table 6 In the table we observed that the board composition has a z-value of -4.57 and the beta-0.4165284 coefficient p is 0.000. This indicates that the non-executive director is negative, strong and statistically influenced by the quality of financial reporting of oil and gas companies registered in Nigeria. This means that non-executive directors are free from effective leadership and are able to monitor them, which will improve the quality of financial information submitted to financial statements of oil and gas companies in Nigeria. In addition, the study found that the increase in the percentage of non-executive directors played a positive role in determining the income of Nigerian registered oil and gas companies. This may be due to the fact that external members do not play a direct role in corporate management, their existence can provide them and they can create effective control mechanisms for the board to produce more reliable financial reports. Another explanation is that the more the representation by the non-executive directors on board of Nigerian listed oil and gas companies the less the chances by managers to manage earnings opportunistically and hence, the greater the financial reporting quality. This result is not surprising because it does not contradict the expectations of researchers who consider their vast experience, credibility, talent and integrity possess by independent directors' they may not wish to be compromise as it may affect their attributes negatively.





## **CONCLUSION AND RECOMMENDATIONS**

### **Conclusion**

Based on the analysis and discussion, the study found that company size has a negative impact on the financial reporting quality of oil and gas companies registered in Nigeria. It is therefore concluded that the size of the company increases the quality of financial reporting of Nigeria registered oil and gas companies.

And that, a negative and significant relationship is found between the board composition and the quality of the financial reporting of oil and gas companies registered in Nigeria. Therefore, we have come to the conclusion that the composition of the board improves the quality of the reported earnings and prevents managers from manipulating the opportunistic profits of registered oil and gas companies in Nigeria.

### **Recommendations**

In accordance with the findings and conclusions of the study, the following recommendations are presented:

The management of listed oil and gas companies in Nigeria should continue to expand their assets through procurement of multiple assets and use them for more revenue and expansions. This can increase your company and reduce earnings management and improve the quality of financial reporting.

Additionally, there is the need for regulators like Security and Exchange Commission (SEC) to increase the minimum number of non-executive director's membership on the board; they might also make it mandatory that the chairman of the board should be independent director. In addition, it should also give guidelines on the basis of selecting independent board members in order not to compromise integrity, objectivity, upright personal experience, compatibility and tangible achievement in the period of service.

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