



BOARD FINANCIAL EXPERTISE AND FINANCIAL REPORTING QUALITY: A COMPARATIVE STUDY OF NIGERIAN AND MALAYSIAN BANKS

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ABSTRACT The main purpose of this study is to examine the relationship board financial expertise on financial reporting quality of banks listed on the Nigerian Stock Exchange and Malaysian Bursa. The study focused on 14 banks listed on Malaysia Bursa and 14 banks listed on Nigerian Stock Exchange 2008 – 2017. Financial Restatement was used as proxy for Financial Reporting Quality while Logit regression technique was applied in the analysis of data. The result showed that board financial expertise was negatively related to financial restatement and statistically significant for Nigeria banks, however the relationship was not significant for the Malaysia banks. The study advocates the need to strengthen the professional expertise with the appointment of more chartered accountants to the board of directors of the banks to continuously improve the current state of financial reporting quality.

KEYWORDS : Diversity; Financial Expertise; Financial Reporting; Financial Restatement; Board

1. INTRODUCTION

The concern about corporate governance in recent time has brought the board of directors to the centre of public debate on its duties and responsibilities. The need to improve financial reporting quality as well as strengthen the control of managers by setting up good governance structures in order to prevent poor financial reports have been advocated several stakeholders. However, effectiveness and efficiency of the board of directors in the discharge of its statutory roles can only be feasible if bounded with appropriate composition and leadership configuration. As the ultimate decision-making body, the competencies of directors are particularly important (Gantenbein & Volonte, 2011).

For instance, the board of directors of WorldCom and Enron were held liable for the fraud that occurred in their respective companies which led to their collapse (Adams, Hermalin, & Weisbach, 2010). In Nigeria, there have also been several cases of malfeasance by the board which resulted in the sacking of the board of Skye Bank in 2016 by the Central Bank of Nigeria and takeover of Arik Airlines by Asset Management Company (AMCOM) in 2017. Such spates of collapses and fraudulent practices in corporate organisations have called to question the capacity of the board to address and execute board functions.

After the Enron saga, the US government enacted the Sarbanes-Oxley Act of 2002, which puts pressure on the board to ensure adherence to regulations and standards leading to transparency and integrity. The Act introduced requirements regarding the board composition to increase the quality of the financial reporting such as the appointment of financial experts in the board of publicly quoted companies (Sarbanes-Oxley Act, 2002). We have observed that not much has been done on studies involving comparative analysis of the relationship between the financial expertise of board members and financial reporting quality of companies in the developing economies. The reason(s) forms the basis of the current study. This study will advance the first comparative investigation into board financial expertise and financial reporting quality which is different from the several country-specific perspectives.

The choice of Malaysia is first premised on its developing country status, economic structure, emerging stock market status, availability of data and the researcher's interest. Malaysia and Nigeria belong to the same accounting cluster (accounting model)– the Anglo-Saxon accounting model (sometimes called the British-American accounting model). As members of the Anglo-Saxon accounting model, they belong to the common law countries where accounting practices are largely determined by accountants themselves rather than by national legislators (Mueller, Gernon, & Meek, 1991).

The next section, which is section two, focuses on literature review, including conceptualizing board financial expertise and financial

reporting quality. Sections three and four discuss the methodology and data presentation. The paper closes with conclusion and some recommendations as presented in section six.

2. LITERATURE REVIEW

2.1 Theoretical Framework

The framework for the analysis of the nexus between board financial expertise diversity and financial reporting quality is the Pfeffer and Sanlancik (1978) theory of resource dependency. The theory is concerned with how organisational behaviour is affected by external resources which the organisation utilises in achieving success. Pfeffer and Salancik (1978) theory of resource dependency sees the board of directors as a tool to manage external dependency, reduce environmental uncertainty and reduce transaction costs associated with environmental interdependency by linking the organisation with its external environment (Lynall, Golden, & Hillman, 2003). Dagsson and Sallberg (2011) noted that one of the functions of the board is decision control; including the prevention of negative management and also the encouragement of management to go after opportunities that make sense for shareholders.

The professional expertise of the directors describes the different accounting professional certifications, accounting skills and financial knowledge that facilitate robust discussions on the company's financial policy choices and financial reporting framework. Ranasinghe, Mather, & Young (2015) argue that board members that have experience in specific accounting practices of an industry can apply those experiences to teach other board members. Those shared experiences can be utilised to dissect financial statements for robust discussions on the firm's accounting policy which ultimately influence financial reporting quality.

2.2 Financial Restatement

The Financial Accounting Standards Board (FASB, 2008) defines a restatement as a revision of a previously issued financial statement to correct an error. The determination of whether a prior period error will result in a restatement hinges on materiality. While the FASB clearly defines restatement, it provides little guidance on assessing materiality. The SEC, however, instructs companies and auditors to conduct a quantitative and qualitative analysis to determine if an error is material to the prior period financial statements.

According to Ernst and Young (2015), there are two broad scenarios under International Financial Reporting Standards (IFRS) that require the restatement of financial statements, namely, changes in accounting principle and accounting errors. When an error is material to prior period financial statements, a company is required to restate previously issued financial statements and correct the error. Prior period errors are omissions from, and misstatements in, the company's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information. In such situations, the audit opinion is

also revised to disclose the restatement, and refer to the financial statement footnote that describes the error and related correction. This type of restatement is commonly known as a Big R restatement. They further note that there are occasions when an error is discovered that was not material to prior period financial statements. Such an error, while immaterial to each individual year, could accumulate over time to a material amount. If the error accumulates to the point that making an all-at-once adjustment to fix the accumulation of past year errors in the present year alone could materially misstate the current year's financials, the company would adjust or restate the prior period information in the current period financial statement. This is sometimes referred to as a Little 'r' restatement (Ernst & Young 2015).

According to Ilaboya (2015), IAS 8 prescribes the criteria for the consistent selection of accounting policies, address changes in accounting estimates, and provide basis for correcting accounting errors. Specifically, IAS 8 requires the restatement of financial statements in five situations involving changes in accounting principle: a change from LIFO inventory valuation to another method; a change in the method of accounting for long-term construction-type contracts; a change to or from the full-cost method of accounting in the extractive industries; issuance of financial statements by a (closely held) company for the first time to obtain additional equity capital, to effect a business combination, or to register securities; and a new accounting pronouncement recommends that a change in accounting principle be treated retroactively (Callen, Livnat, & Segal, 2008). Financial restatements indicate lack of financial reporting quality and high information risk. Prior research has documented that poor financial reporting quality in the form of financial restatements increases the information asymmetry between insiders and outsiders (Kravet & Shevlin, 2010).

Financial reporting serves as an important mechanism for the effective monitoring of managerial actions and the efficient allocation of financial resources (Bushman & Smith, 2001). The filing of financial restatements usually signals weak corporate governance and ineffective internal control. Thus, in an efficient market for corporate control, after observing financial restatements, outsiders may have incentives to intervene with takeover offers in order to remove inefficiencies and increase shareholders value (Amel-Zadeh, & Zhang, 2011).

According to Hasnan, Marzuki, and Shuhidan (2017), firms usually experience severe losses such as deterioration of company reputation and investors' confidence, fall in share price and reduction in market capitalisation as a result of financial restatement. Bardos (2011) posits that the adverse consequences of restatements can worsen information asymmetry between informed and uninformed investors. Financial restatements can raise uncertainty on the competency of management and future performance of the company. In line with this contention, most firms that restate their financial statements experience turnover of top level management (Desai, Hogan, & Wilkins, 2006; Srinivasan, 2005). Furthermore, Bardos, Golec, and Harding, (2010) reports that of financial restatement also increases the likelihood of litigation, while Bardos, and Mishra, (2010) opine that restatement adversely affects the cost of equity and loan contracting in organisations.

Callen, et al., (2008) observe that investors perceive restatements as negative signals due to three potential reasons: the restatement indicates problems with the accounting system that may be manifestations of broader operational and managerial problems; the restatement causes downward revisions in future cash flows expectations, and lastly, the restatement indicates managerial attempt to cover up income decline through "cooking the books". Callen, et al., (2003) examine a large sample of financial statement restatements over the period 1986-2001, and compare restatements caused by changes in accounting principles to those caused by errors. They suggest that companies in their initial growth phase are more likely to manipulate their accounts, especially revenues, possibly to mitigate negative earnings and cash flows.

2.3 Board of Directors

Section 650 of the Companies and Allied Matters Act (CAMA) 2004 defines the director as including "any person occupying the position of directors by whatever name called", while Section 244(I) states that "directors of a company under this Act are persons duly appointed by the company to direct and manage the business of the company". The first sets of directors in a company are appointed by the subscribers to the memorandum and articles of association while subsequent

appointments are made by the shareholders at the relevant annual general meetings. In Nigeria, every company must have a minimum of two directors, while in United Kingdom a private company must have at least one director and a public company must have two directors (Aina, 2013).

The board of directors is the apex administrative organ of the company responsible for the management of the company. The role of the Board is to oversee the management of the Corporation and to represent the interests of all the Corporation's stockholders. The Board meets in regular session at least six times per year, and as otherwise required. Directors are expected to attend all Board meetings and meetings of committees on which they serve, and they are frequently called upon for advice and counsel between formal meetings. The directors review advance meeting materials that are provided to each director in advance of each meeting. Each director is encouraged and expected to ask questions of and raise issues with management to ensure the conduct of careful and cautious oversight (Martin, 2015).

The Organization for Economic Cooperation and Development (OECD) describes its vision of the responsibilities of the board as follows: "The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders" (OECD, 2004). This vision expects both advice and oversight from the board of directors. To fulfil the advisory function, the board consults with management regarding the strategic and operational direction of the firm. To fulfil the oversight function, the board has to monitor management and has to ensure that management acts diligently in the interests of the shareholders (Berg, 2015).

There are two broad categories of directors; the executive directors (EDs) and the non-executive directors (NEDs). The executive director is a full time officer of the company, who may generally be appointed under a contract of service with the company. The articles normally provide for the appointment of the executive directors, who are normally part of the management team but usually as the heads of specific departments in the company. They are professionals who are required to be qualified for their office by educational qualification and cognate experience. The executive director has been described as an employee of the company with a proper contract of service with the company. The NEDs are normally appointed to the board (mainly in public companies) to act as monitors of the executive management. Their appointments are typically on part-time basis and are only expected to attend meetings without having any office in the company. Their position is adversarial mainly and is not expected to participate in the day to day management of the company (Aina, 2013).

Nigeria and most commonwealth countries follow the position in United Kingdom on the adoption of the unitary board system. The company's directors serve together on one board comprising both executive and non-executive directors. Many countries in the continental Europe such as Germany and Austria adopted a two-tier board system which separates those responsible for supervision from those responsible for operations. The executive board is the first tier, while the non-executives sit as the supervisory board (Ezejelue, 2001). According to Ogbechie (2012), the board of directors can be classified into three broad components; executive, monitoring and instrumental. Based on the affiliation with the firm, the Board of Directors is classified among the components. Directors in the executive cadre are closely aligned with the top management of the corporation. They mainly provide a source of expertise for the board of directors and are often former employees or current employees. The monitoring component consists of 'independent' or 'outside' directors. Independent means: not a current employee or a director who is dependent on the management. The main role of these directors is to independently assess the performance of the management and the managerial conduct. Finally, the instrumental component consists of directors who are placed on the board for functional reasons beyond advising, monitoring, and disciplining the management. These directors are mainly part of the board to be a source of managerial wisdom to improve the decision making process (Carcello, Neal, Palmrose, & Scholz, 2011).

It is observed that the CAMA (2004) is however silent on the day to day role and power of the directors and has been left to the company articles. There is also no mention of the way and manner the board ought to be organized and it follows that each company apart from

appointing members of the board must also specify the structure, role and powers of its directors in the articles of association. According to Ogbechie (2012), shareholders vigilance in Nigeria is weak while external pressure on corporate management is very high. Boards are subsequently required to be major drivers of good corporate governance in Nigeria. The general roles played by boards, including those in Nigeria, can be classified into three broad categories. First, directors are expected to monitor senior executives, select and dismiss them, evaluate their performance and design their compensation package. Second, directors should be part of defining, selecting and implementing corporate strategy. Third, directors should perform ceremonial functions that enhanced the company's legitimacy.

In the last few years there has been more pressure on boards to show how they add value to their companies. How to enhance board effectiveness has become a focus of attention and debate amongst corporate governance experts and researchers. In Nigeria the debate is even stronger, following the Cadbury Nigeria scandal. The Cadbury Nigeria scandal has exposed the limited knowledge of boards in Nigeria and has brought to question the effectiveness of the board and individual directors (Akeju & Babatunde, 2017).

In Nigeria, and most developing countries, good corporate and public governance are critical to economic survival and growth. It is therefore important to understand the role of boards in ensuring good governance practices. Recent and current developments in Nigeria's financial services industry have added more pep to the discussion on board effectiveness. Cadbury Nigeria deliberately overstated its financial position over a number of years (2004-2006) to the tune of between N13 and N15 billion (Ogbechie & Koufopoulos, 2007). In 2009, the Central Bank of Nigeria sacked the Managing Director/Chief Executives and Executive Directors of five banks namely, Afribank PLC, Finbank PLC, Intercontinental Bank Plc, Oceanic Bank Plc and Union Bank Plc due to high level of non-performing loans in the five banks which was attributable to poor corporate governance and Earnings Management practices in Nigerian public companies (Odia & Ogiedu, 2013).

The Sarbanes-Oxley Act of 2002 was passed by the U.S. congress in response to preventing the reoccurrence of financial scandals, to reinforce corporate accountability and professional responsibilities, as well as rebuild investor confidence in the financial system. Similarly, the introduction of Code of Corporate Governance for Public Companies in Nigeria by Securities and Exchange Commission (SEC) 2011 and Financial Reporting Council of Nigeria Act of 2011 was enacted to harmonize activities of relevant professional and regulatory bodies with the aim of ensuring effective corporate governance and credible financial reporting (Nwonyuku, 2012).

2.4 Board Financial Expertise and Financial Reporting Quality

Financial expertise of board members who have accounting professional certification such as CA/CPA/ACCA, provides the board with in depth technical knowledge on alternative accounting treatments, accounting policy choices and financial regulatory framework. According to Gantenbein and Volonte (2011), some firms precisely specify the profile requirements expected of their board members such as legal background, financial knowledge and other skills that facilitate interactive decision making. Furthermore, the United States Sarbanes-Oxley Act of 2002 mandates every board to create an independent audit committee composed of at least one financial expert.

It is significant for both inside and outside directors to play an efficient role in improving financial reporting quality to provide access to the firms' needed resources such as financial, governance and firm-specific expertise (Bedard, Chtourou, & Courteau 2004). Ranasinghe, et al., (2015) observe that most of the prior literature in accounting reports that it is expedient to have financial experts on the board in order to maintain high levels of monitoring around financial reporting. According to Bala and Kumai (2015), for the boards to do their tasks effectively, they must have the ability for asking management tough questions, actively helping them to set corporate strategy, monitoring risk management, contributing to CEO successions plan and ensuring that companies set and meet their financial and operating targets. In their study of the influence of board characteristics and earnings management of listed food and beverages firms in Nigeria, they found an inverse relationship between board financial expertise, and earnings management.

Xie, Davidson, and DaDalt, (2003) investigated the roles of the board and audit committee on earnings management. They found that boards of directors with corporate or investment banking backgrounds are related to the level of earnings management negatively. They suggest that independent directors with corporate and financial backgrounds are critical to discourage earnings management. Bedard et al. (2004) found that the presence of financial expert in the audit committee was negatively associated with aggressive earnings management.

Guner, Malmendier, and Tate (2006) find little evidence that financial expertise matters for specific policies like financing, investment, and compensation when conflicts of interest are absent. In fact, the authors find that in the presence of conflicts of interest financial experts affect corporate decisions in the interest of the financial institutions that employ them. Furthermore, in an empirical test on the hospital boards in the health care industry in California, Goodstein, Gautam, and Boeker, (1994) find that organisations with diverse boards, measured by occupational or professional background, are less likely to initiate strategic changes than those with homogeneous boards. Furthermore, Engelen, Van Den Berg, and Van Der Laan, (2012) investigated a sample of Dutch listed companies during the recent financial crises, and found that board expertise diversity has a significant impact on firm performance. Park and Shin (2004) also found that the presence of officers from financial intermediaries in the board can limit abnormal accruals as the unmanaged earnings are below the target.

Kibiya, Che-Ahmad, and Amran, (2016) found that the relationship between audit committee financial expertise and financial reporting quality show a significantly positive association. Therefore the presence of a board member with financial expertise would enhance the quality of the financial report. Cohen, Hoitash, Krishnamoorthy, & Wright, (2014) examined the effect of audit committee industry expertise on monitoring the financial reporting process, and suggest that industry expertise, when combined with accounting expertise, can improve the effectiveness of the audit committee in monitoring the financial reporting process.

Ojeka, Iyoha and Asaolu (2015) investigated the impact of audit committee financial expertise on the quality of financial reporting of money deposit banks in Nigeria. The study found that, audit committee financial expertise showed a negative coefficient for total accrual quality and audit report lag. This means financial expertise has a positive significant impact on financial reporting quality in Nigeria.

3. METHODOLOGY

We adopted longitudinal research design in examining the relationship between board financial expertise diversity and financial reporting quality. The study is an ex-post facto research and combination of cross-sectional and time series survey design. The population of this study comprises of all the banks listed on the Nigerian Stock Exchange and Malaysian Bursa as at 31st December, 2017. The sampling method adopted in this study was a combination of non-probabilistic – convenience sampling and probabilistic – judgmental sampling (subjectivity in the selection of the companies) procedures. From the sampling frame and based on the availability of directors' profiles in the published financial statements, we purposively selected fourteen (14) banks in each of the Stock Exchange for a period of ten (10) years (2008 - 2017). Secondary data was collected from the content analysis of the financial statements of the relevant firms. The choice of the period is to enhance the currency of the study, and it is also considered long enough for the changes in the explanatory variables to cause changes in the dependent variables of financial restatements. The data analysis technique used in the study is the pobit/logit regression model due to the dichotomous nature of the dependent variable of restatement

3.1 Control Variables

In this study, firm size, firm age and board age were used as control variables to control for the effects of board financial expertise diversity on financial reporting quality.

Firm Age

Firm age is one of the control variables used in this study, and refers to total number of years since incorporation. Age refers to the length of time during which a being or thing has existed. From the perspective of the company as a legal personality, a company is born through incorporation (Ilaboya & Ohiokha, 2016). Akhtaruddin (2005) observe that older firms have fewer tendencies to perform earnings management practices. They argue that older companies are well

known, and have great reputation to protect, and are also aware of the rules and codes that govern their practices. Alsaeed (2006) opine that old firms might have improved their financial reporting practices over time as they try to enhance their reputation and image in the market.

Firm Size

Firm size is also used as a control variable included in the model which is measured by the natural log of total assets. According to Abed, Al-Attar and Swaidan (2012) smaller companies are subject to less control from authority and therefore, engage in earnings management activities while some authors argue that earnings management activities increases as the size of a company increases. Soliman and Ragab (2013) have empirically found that firm size has a significant positive relationship with earnings management. They claim that large firms face greater scrutiny from investors, and thus more likely to manage earnings to satisfy their forecast.

Lee (2013), in his study of the influence of corporate governance on earnings quality, finds that firm size does not have significant impact on earnings management. In addition, Johari, Saleh, Jaffar, and Hassan (2008) did not find any significant relationship between firm size and earnings management. On the contrary, Musa, Ibikunle, and Victor (2013) document a significant negative impact of firm size on Earnings Management.

Board Size

Board size refers to total number of directors on the board. Empirical evidence regarding the impact of board size on financial reporting quality is inconclusive. Some researchers (Alzoubi, 2012; Monks & Minow, 2011) state that larger boards are able to commit more time and resources, in overseeing management whereas smaller boards commit less time and efforts. Klein (2002) extended this argument by saying that board monitoring is positively associated with larger boards because of their ability to distribute the workload to many people. Abdul and Ali (2006) found a significant positive association between board size and the empirical indicator of earnings management. However, as Xie et al. (2003) found a negative association between earnings management and board size.

In summary, it is generally accepted the board members who possess professional accounting certification such as ACA, ACCA, CPA would bring their expertise to bare in promoting quality financial reporting at the board room. Therefore, our hypotheses for the study are stated below:

H1: financial expertise of board members does not significantly influence financial restatement in Nigeria Banks

H2: financial expertise of board members does not significantly

Table 1 - Operationalisation of Variables

S/N	Variables	Operational Definition	Constituting Variables	Measurement	Aprori Sign
1.	Financial Restatement	The listed firms in the study that restate their annual financial statement	Audited Financial statement	Restatement is a binary variable that will assume the value of one (1) if a firm restated its financial statement and zero (0) if otherwise.	
2.	Financial Expertise	This is defined as the professional (occupational) background of the directors	Financial expertise: Holders of professional qualification of ICAN, ACCA, ANAN, ICMA	The proportion of members of the board who professional accounting qualification to the total number of board members.	-
3.	Firm Size	The size of the Firms	Book value of the firm assets	Natural logarithm of the Firms total assets	-
4.	Firm Age	This refers to total number of years of the firm since incorporation	Date of incorporation of the firm	The study year less the year of incorporation	-
5	Board Size	Board size was defined as the number of directors sitting on the board	List of board members	Board size was determined by the number of directors sitting on the board at the end of each year.	-

Source: Authors' Compilation 2019

1.DATA PRESENTATION AND ANALYSES

Table 2 - Descriptive Statistics (Nigerian banks Vs Malaysian banks)

Nigeria Banks	RESTATEMENT	EXPERTISE	FAGE	FSIZE	BSIZE
Mean	0.057554	0.225367	41.00719	3.725185	13.99281
Median	0.000000	0.235294	26.00000	3.763837	14.00000
Maximum	1.000000	0.500000	122.0000	4.419746	20.00000
Minimum	0.000000	0.000000	1.000000	3.008986	6.000000
Std. Dev.	0.233740	0.136777	32.58311	0.348284	3.133495
Skewness	3.799483	-0.205386	1.053447	-0.195220	-0.384761

influence financial restatement in Malaysia Banks

3.2 Model Specification

It is expected that a functional relationship exists between board financial expertise diversity and financial restatement. The general form of the relationship is expressed as:

$$Y_{it} = Z_{it} + W_{it} + U_{it} \tag{I}$$

Where:

- i = 1, ..., l represent the sampled companies,
- t = 1, ..., T represent the time period covered the study;
- Z_{it} = financial expertise diversity of board members.
- W_{it} = a set of control variables such as firm age and firm size,
- μ_{it} = the error term.
- Y_{it} = the dependent variable Restatements.

Following from the theoretical and empirical espousition above, the general forms of the models in equations (i) is transformed into functional form as:

$$RESTATEMENT_{it} = \beta_0 + \beta_1 AGE_{it} + \beta_2 FAGE_{it} + \beta_3 FSIZE_{it} + \beta_4 BSIZE_{it} + \mu_{it} \tag{ii}$$

For the Nigeria banks (Model 1);

$$RESTATEMENT_{NGit} = \beta_0 + \beta_1 AGE_{it} + \beta_2 FAGE_{it} + \beta_3 FSIZE_{it} + \beta_4 BSIZE_{it} + \mu_{it} \tag{iii}$$

And the Malaysia banks (Model 2);

$$RESTATEMENT_{MLit} = \beta_0 + \beta_1 AGE_{it} + \beta_2 FAGE_{it} + \beta_3 FSIZE_{it} + \beta_4 BSIZE_{it} + \mu_{it} \tag{iv}$$

Where;

Dependent Variable

Restatement = Measure of dependent variable of financial reporting Quality

Independent Variables:

EXPERTISE = Board Financial Expertise

Control Variables

FAGE = Age of the firm since incorporation

FSIZE = Size of the firm

BSIZE = Number of directors on the board

_{NG} = Nigeria banks

_{ML} = Malaysia banks

i = the number of firms of the sample size (i=1, 2, ...)

t = the period covered in the study (1, 2, ... 10)

β₁, β₂, ... β₄ = Coefficients of the variables

μ_{it} = Error term

3.3 Opertionalisation and Measurement of Variables

Kurtosis	15.43607	2.012007	3.085616	2.178177	2.993468
Jarque-Bera	1230.150	6.630669	25.75168	4.794555	3.429865
Probability	0.000000	0.036322	0.000003	0.090965	0.179976
Observations	140	140	140	140	140
Malaysia Banks	RESTATEMENT	EXPERTISE	FAGE	FSIZE	BSIZE
Mean	0.107143	0.211656	36.42857	10.26066	8.257143
Median	0.000000	0.200000	32.50000	10.63613	8.000000
Maximum	1.000000	2.000000	111.0000	11.59718	18.00000
Minimum	0.000000	0.000000	1.000000	7.482674	1.000000
Std. Dev.	0.310405	0.218458	25.77215	1.032029	2.479764
Skewness	2.540341	3.916940	1.211206	-1.083490	0.374174
Kurtosis	7.453333	33.08746	4.393539	3.259519	4.166637
Jarque-Bera	266.2655	5638.645	45.55852	27.78507	11.20622
Probability	0.000000	0.000000	0.000000	0.000001	0.003686
Observations	140	140	140	140	140

Source: Eviews 9.5 Output, 2019

The variables used in the model are described in the table below: From the comparative presentation of the descriptive statistics of the variables from both countries that formed the sample, it could be observed that while about 6% of the sampled Nigerian banks restated their financial statements within the periods covered by the study, about 11% of Malaysian banks engaged in financial statement restatement within same period. Similarly, while about 23% of the directors of the sampled Nigeria banks are professional/chartered accountants, 21% of professional accountants are equally directors among the sampled Malaysian banks. On the average age of the

sampled banks, the Nigerian banks are slightly older (41 years on average) than the sampled Malaysian banks (at 36 years approximately). The same applies for the size of board of directors, on average the Nigerian sampled banks have about 14 board members compared to approximately 8 members on the part of the Malaysian banks. This implies that while the sampled Malaysian banks are bigger in size in terms of total assets (FSIZE), the Nigerian banks are older, have lower restatements and larger board of directors membership, as well as greater expertise in terms of membership of recognised accounting professional bodies.

Table 3 - Correlation Matrix (Model 1 & 2) for both Nigerian and Malaysian banks

	NIGERIA					MALAYSIA				
	RESTATE	EXP	FAGE	FSIZE	BSIZE	RESTATE	EXP	FAGE	FSIZE	BSIZE
RESTATE	1.000					1				
	-----					-----				
	-----					-----				
EXP	0.108 (1.272) [0.205]	1.000				-0.027 (-0.317) [0.751]	1.000			
		-----					-----			
		-----					-----			
FAGE	0.260 (3.148) [0.002]	0.142 (1.680)	1.000			-0.104 (-1.226) [0.222]	0.135 (1.597)	1.000		
		-----					-----			
		-----					-----			
FSIZE	0.075 (0.875) [0.383]	0.167 (1.987) [0.049]	-0.061 (-0.710) [0.479]	1.000		-0.023 (-0.274) [0.785]	0.170 (2.029) [0.044]	0.076 (0.900)	1.000	
		-----					-----		-----	
		-----					-----		-----	
BSIZE	-0.178 (-2.111) [0.037]	0.079 (0.925) [0.357]	-0.042 (-0.487) [0.627]	0.167 (1.979)	1.000	0.057 (0.676) [0.500]	0.177 (2.112) [0.037]	0.125 (1.478)	0.214 (2.577)	1.000
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Source: As compiled from Eviews Output, 2019: Where: EXP = Expertise; RESTATE = Financial Restatement.

Note: **Bold prints** are Correlation Coefficients; Parentheses () are t-statistic while bracket [] are p-values.

In examining the direction and strength of the associations among the variables, the researcher employed the Pearson correlation coefficients (correlation matrix) and the outputs for both samples are presented together in Table 3. As observed, there is no significant association between RESTATEMENT and EXPERTISE among the sampled Nigerian banks; same applies to the Malaysian sampled banks. However, both differ in terms of the coefficient signs. On that, while RESTATEMENT and EXPERTISE move in the same direction in the Nigerian context, both moves in opposite directions in the Malaysian context. However, both are statistically non-significant owing to their high probability values of 0.205 and 0.751 respectively. There is also no evidence of multicollinearity issue as none of the variables are perfectly correlated; the highest correlation coefficient is 0.26 i.e. between RESTATE and the FAGE variable.

5. REGRESSION ESTIMATION

The dichotomous nature of the dependent variable(s) of RESTATEMENT necessitated the use of binary logit regression technique in the estimation of both models. This technique is usually preceded by the test of 'goodness of fit' of the regression model in order to observe how well the model fits the data. We, thus, conducted the

Hosmer-Lemeshow test for goodness of fit approach as presented Table 4 prior to the regression results in Table

Table 4 - Hosmer-Lemeshow Test Result (Model One and Two)

Model 1 (Nigerian banks)			
H-L Statistic	13.5642	Prob. Chi-Sq(8)	0.0939
Andrews Statistic	80.3911	Prob. Chi-Sq(10)	0.0000
Model 2 (Malaysian banks)			
H-L Statistic	8.826	Prob. Chi-Sq(8)	0.3572
Andrews Statistic	44.6584	Prob. Chi-Sq(10)	0.0000

Source: Eviews 9 output (2018)

As observed from the above result, despite the miniature dataset of 140 observations on both models, the actual H-L value stood low at 13.56 and 8.826 respectively. The probability values for the (H-L) statistic test of both models (i.e 9.39% and 35.72% respectively) are observed to be greater than the significance level of 5% providing strong evidence of minimal differences between the actual and predicted values for the deciles. Thus, there is enough evidence to conclude that the models fit the data.

Table 5 - Binary Logit Panel Regression Results (Model 1 & 2)

Model 1 Nigerian banks (2008 - 2017) Dependent Variable: RESTATEMENT Total observations: 140 (14 cross-sections)				Model 2 Malaysian banks (2008 - 2017) Dependent Variable: RESTATEMENT Total observations: 140 (14 cross-sections)			
Variables	Coefficient	z-Statistic	Prob.	Variables	Coefficient	z-Statistic	Prob.
C	-11.09616	-1.943591	0.0519	C	-1.250678	-0.460810	0.6449
EXP	2.586552	0.870095	0.3842	EXP	-1.603353	-0.723138	0.4696
FAGE	0.030652	2.625529	0.0087***	FAGE	-0.019937	-1.388229	0.1651
FSIZE	2.394013	1.719569	0.0855*	FSIZE	-0.127207	-0.477155	0.6333
BSIZE	-0.235896	-2.035324	0.0418**	BSIZE	0.165383	1.207705	0.2272
McFadden R-squared			0.240887	McFadden R-squared			0.034265
S.E. of regression			0.202645	S.E. of regression			0.312831
LR statistic			14.74493	LR statistic			3.266809
Prob(LR statistic)			0.00526***	Prob(LR statistic)			0.514208

Source: Author's Compilation from Eviews 9 output (2019)

***.Significant at the 0.01 level (1%).

** Significant at the 0.05 level (5%).

* Significant at the 0.1 level (10%).

As Table 5 depicts, the McFadden R-squared values showed that the selected independent and controlling variables have combined predictive powers of 24.1% and 3.4% respectively for the models one and two. On the overall significance of the two models, the LR statistic and corresponding probability value of model one is statistically significant (p-value = 0.00526) and depicts a linear relationship between the dependent and the explanatory variables. While that of model two is non-significant (p-value = 0.5142) meaning that the assumption of linearity of the model two at 5% can be rejected. On the performance of the individual variables in model one, the result shows that the main variable of interest (i.e. financial expertise, represented using the acronym EXP) did not contribute in predicting the variations in RESTATEMENT except for the three controlling variables of FAGE, FSIZE and BSIZE which are significant at 1%, 10% and 5% respectively.

The implication of the model one result is that only the changes in firm age (FAGE), firm size (FSIZE) and board size (BSIZE) are significantly associated with changes in financial restatement of the sampled Nigerian banks. Thus, the null hypothesis that financial expertise of board members does not significantly influence financial restatement in Nigerian banks can be accepted. Although the result is at variance with our apriori expectation of a negative and significant relationship (in line with Kabiya et al, 2016; Ojeka et al, 2015) owing to the assumption that directors with professional accounting knowledge provide the board with alternative accounting treatments and policy choices which may reduce financial restatement, and invariable enhance financial reporting quality (FRQ); however, the insignificant relationship supports the argument of Ilaboya and Obaretin (2015) that the intricacies of daily business activities go beyond professional expertise and managing reportage decisions also require greater entrepreneurial skills which finance knowledge may not necessarily confer.

On the second model, it can be observed that none of the explanatory variables, estimated using only the sampled Malaysian banks, appeared statistically significant. This encompasses both the independent variable of financial expertise (EXP) and the three control variables of FAGE, FSIZE and BSIZE. This means that the selected variables could not predict the variance in financial restatement among the sampled Malaysian banks within the period captured by the study. Based on this outcome, the paper accepts the second null hypothesis that financial expertise of board members does not significantly influence financial restatement in Malaysia banks.

The negative coefficient sign is in line with our apriori expectation while the insignificant relationship between board financial expertise and financial restatement is in tandem with the findings of Hasnan et al (2017); Shafie and Zainal (2016) which showed evidence that the professional competence of board members is not significantly associated with level of financial restatement among Malaysian companies. On the other hand, our result is at variance with those of Mohammad, Wasiuzzaman, Morsali and Zaini (2018); Nawafly and Alarussi (2016) which studied the Malaysian market and found that board expertise significantly affect financial restatement among companies listed in Bursa Malaysia. The possible explanation for the disparity between our findings and those of most previous studies could be attributed size of our sample and the exogenous variable,

including sector heterogeneities, as our paper focused only on listed banks.

6. CONCLUSION AND RECOMMENDATIONS

The need to improve the quality of financial reporting led to the enactment of the SOX Act (2002) which mandates publicly quoted companies to include financial experts in its board (Ojeka, et al., 2015). This study seeks to extend the literature of the relationship between board financial expertise and financial reporting quality in developing economies of Nigeria and Malaysia. The financial reporting quality examined is restatement of financial statement. Our result shows that about 21% of members of the board in both Nigerian and Malaysia banks are chartered accountants. However, while financial expertise of board members significantly influenced the quality of financial reporting positively in Nigeria banks, it did not have any impact on financial restatement in Malaysia banks.

Our study advocates the inclusion of more financial experts in the composition of the board of publicly quoted companies to enhance the quality of financial reports by reducing the incidences of financial statement restatement. Our findings are particularly important when considering the increasing losses by investors from high profile financial restatement. The limitations of this study can be ascribed the small sample frame (banks only), and the result may not be applicable to other sectors of the economy. Also we considered only Nigeria and Malaysia banks, the result of which may not be applicable to of the emerging markets. Furthermore, our study only tested financial restatement as a proxy for financial reporting quality. Other measures financial reporting quality may yield different results.

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