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Impact Of Board Diligence And External Auditor On Accounting Disclosure Of Quoted Pharmaceutical Companies In Nigeria

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Abstract : *The study investigated the relationship between board diligence and external auditor on accounting disclosures of quoted pharmaceutical companies in Nigeria between the periods of 2013 to 2022. The study adopted both quantitative and ex-post-facto research designs. The method of data collection was secondary data collection, and the econometric approach of Ordinary Least Square (OLS) analysis technique was used to test the level of relationship between the independent and dependent variables and the level of significance in relationships between the variables. The result of the analyses showed that Board Diligence (BDG) and External Auditors (EXA) have a significant positive relationship with the Accounting Disclosure (ACD) levels of quoted pharmaceutical firms in Nigeria. From the findings, the study concluded that board diligence and external auditors would have significant influence in increasing firms' accounting disclosure levels of quoted pharmaceutical firms in Nigeria.*

Keywords: Board Diligence, External Auditors, Accounting Disclosure.

Introduction

Public, creditors, regulators, and shareholders have a right to know how a company is doing financially and otherwise through accounting disclosures, which are mandated by law and are done in good faith. Improving financial market efficiency, boosting investor confidence, and ensuring transparency are all dependent on it. Closing the information gap between stakeholders and management requires transparent accounting that allows them to make informed decisions. Keeping to industry standards and maintaining market confidence requires honest disclosures. This is particularly true in the pharmaceutical industry, where public trust, accurate financial reporting, and regulatory compliance are paramount (Tapang et al., 2020). Corporate governance procedures in Nigeria, such as board monitoring and external audits, influence accounting transparency. These processes help guarantee that companies declare their finances in accordance with regulations (Amah & Ekwe, 2021).

Active monitoring of the company's management and financial reporting is known as board diligence, and it is a crucial component of corporate governance. Felo et al. (2003) found that boards that closely watch firm operations, assess risks, and enforce corporate governance rules are more likely to have accurate financial disclosures. In publicly listed pharmaceutical companies, the board of directors has a crucial role to play in protecting shareholder interests by preventing financial misreporting and mismanagement. Financial scandals are less likely to occur when boards of directors are effective at ensuring the open and honest disclosure of all relevant financial and operational information (Ntim et al., 2013). But external auditors are as crucial since they offer a dispassionate assessment of financial accounts. To ensure that a company's financial statements fairly represent its financial health, independent auditors are required to do so under strong corporate governance standards (Okereke, 2018). External auditors contribute to a reduction in agency conflicts between shareholders and management by verifying the accuracy and absence of material misstatements in financial reports. Credible external auditors, particularly those from the so-called "Big Four" firms, are associated with increased openness and disclosure quality (Hasan et al., 2013).

In Nigeria, particularly in the pharmaceutical industry, there is a dearth of writing about how important external auditors and board oversight are for better financial reporting. Much of the literature on the topic of corporate governance systems and their impact on accounting disclosures has focused on the influence of strong boards or high-quality external audits. Adeyemi and Fagbemi (2010) looked into how corporate governance affected financial disclosure in Nigerian companies, but they didn't consider the pharmaceutical business or the combined impacts of board scrutiny and external auditors. Similarly, Okoye and Akenbor (2019) investigated the link between independent auditors and financial reports, but they failed to account for the oversight provided by the board. Disclosure processes and corporate governance have been extensively studied by writers such as Nwude and Uche (2021) and Adebayo and Adeyemi (2020), but the specific dynamics of board diligence and its interactions with external audits have been given far less attention.

To address that gap, this study examines the financial disclosure policies of pharmaceutical businesses in Nigeria and how they have improved them via the use of external auditors and board monitoring. Hopefully, it will shed insight on the ways in which these two types of government regulation influence financial reporting transparency. The pharmaceutical industry in Nigeria must be financially transparent if it wants to keep the trust of regulators and investors (Amah & Ekwe, 2021). However, most studies have

looked at these factors alone, and none have looked at how they affect accounting disclosures when combined. This study aims to investigate the connection between board diligence and external auditors in listed pharmaceutical companies in Nigeria. Specifically, it will investigate how this connection affects the accuracy and completeness of financial disclosures.

Statement of Problem

Legislative frameworks and corporate governance requirements in Nigeria aim to make accounting more transparent, yet listed pharmaceutical businesses still make poor financial disclosures. Accounting disclosures have a long way to go before they can win over investors' trust and ensure compliance with rules. How board diligence and the involvement of external auditors impact the quantity of financial disclosure is an essential subject that requires a response in corporate governance processes. According to Okoye and Adeniyi (2020), insufficient financial data disclosure often occurs due to ineffective board supervision. Boards that aren't diligent in their monitoring duties cause financial reports to lose part of their credibility and accuracy. Management may use creative accounting to deceive investors or hide losses if the board doesn't thoroughly review them. A lack of financial openness on the part of the corporation might damage its financial statements, putting investors at needless risk. The level of accounting disclosure is significantly affected by the level of board diligence, the level of oversight of the company's financial and operational operations by the board of directors. If boards don't get together frequently or check over financial reports carefully,

Aiyetan (2020) claims, they can miss big mistakes. Boards that don't get together frequently enough or don't check financial reports carefully enough lead to weak monitoring and inadequate or inaccurate disclosures. This causes investors to lose trust as they rely on accurate data to make informed decisions. Yet, external auditors' inability to function independently—resulting, for example, from close ties to management or a lack of professional scepticism—can lead to a decline in audit quality (Oyerogba, 2014). When external auditors in Nigeria face issues related to their independence, as found in a study by Alqahtani (2019), it leads to an inadequate review of financial reports. Without sufficient audits, stakeholders may remain unaware of financial difficulties and insufficient accounting transparency may persist. A vigilant board is necessary to ensure that management is following all relevant accounting rules and the proper procedure for financial reporting (Tapan, Effiong, & Oti, 2020). But boards that are overly lax or whose members don't have the necessary expertise to spot discrepancies in financial reports are more prone to financial misreporting. The decline in the quality of accounting disclosures has a negative impact on the company's reputation and bottom line.

Given these challenges, it is essential to enhance accounting disclosures by bolstering the role of external auditors and board monitoring. The current study aims to address this issue by investigating publicly listed Nigerian pharmaceutical companies' accounting disclosures, board diligence, and external auditors.

Aim and Objectives of the Study

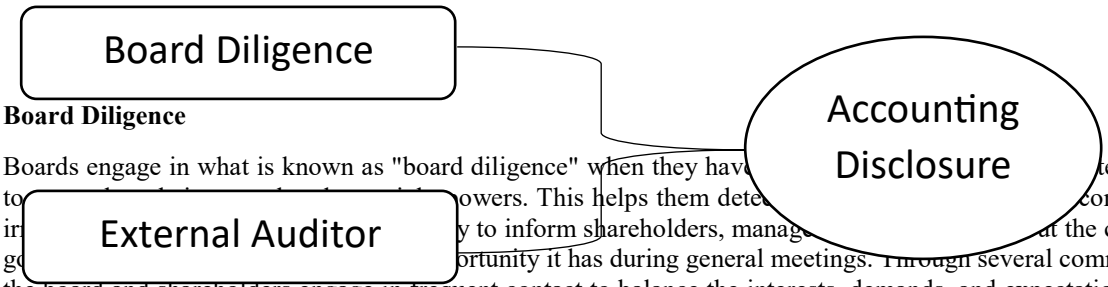
i. Determine whether board diligence has any significant effect on the accounting disclosure of quoted pharmaceutical companies in Nigeria.
ii. To review whether an external auditor is the vehicle between corporate governance and accounting disclosure of quoted pharmaceutical companies in Nigeria.

Research Hypotheses

HO_1: Board diligence does not have any significant effect on the accounting disclosure of quoted pharmaceutical companies.

HO_2: External auditor does not have any significant effect on the accounting disclosure of quoted pharmaceutical companies.

Conceptual Framework



Board Diligence

Boards engage in what is known as "board diligence" when they hav tees, and use other measures to owers. This helps them dete conflicts of interest, and other ir y to inform shareholders, manag t the company's performance and g ortunity it has during general meetings. Through several committees and board meetings, the board and shareholders engage in frequent contact to balance the interests, demands, and expectations of shareholders with the company's aims (NCG code, 2018).

Board diligence is evaluated using the following criteria: the frequency and quality of board meetings; the availability of advice and information; and the degree to which management and shareholder interests are aligned (Vafeas, 1999). Directors have the opportunity to deliberate on important issues and make decisions that will shape the future of the firm at board meetings. Principle 10 of the 2018 Nigerian corporate governance code reads, "Meetings are the principal vehicles for conducting the business of the board and successfully filling the strategic objectives of the company." Mishra et al. (2009), Vafeas (1999), and Adams and Ferreira (2009) all agree that outside directors may keep an eye on what inside directors are doing through planned meetings. This helps to minimise fraud and agency conflicts and make the most of development opportunities. However, Ebrahim (2007) argued that board meetings do not improve company performance since the time permitted is insufficient to for the exchange of ideas that may improve performance. The chances of fraud rising, EPS falling, and earnings management being promoted by more frequent board meetings are all highlighted by Chen et al. (2006). A controversial but ultimately decision-making matter is the annual meeting limit for the board (Eluyer et al., 2018).

External Auditors

Publicly held companies face distrust and potential conflicts of interest due to the separation of control and management from their owners. This is because owners are worried that management may utilise the assets for their own gain. Before providing an opinion on the financial reports, an independent auditor is required to examine the company's records and internal controls in accordance with the generally accepted standards for financial reporting. The outcome will be the restoration of faith and the calming of fears among investors and stockholders. In order to ensure that all parties involved have faith in the financial statements, it is a fundamental goal of corporate governance norms to require independent audits of these documents. This gives an accurate and fair picture of the company's financial situation and performance.

One of the principles outlined in the 2018 NCG code is the need to hire an independent auditor to review the financial accounts and provide a judgement on their reliability and equity. Stakeholders' confidence in the financial accounts depends on this. Auditors, acting on behalf of the shareholders who chose the directors, are tasked with reporting on whether the directors' reported financial performance accurately reflects their actual activities (Okezie, 1999). Management is obligated to create financial reports outlining the company's performance and financial status in accordance with the corporate governance principle, which prioritises transparency and accountability. When the board of directors is satisfied with the reports, they forward them to the shareholders for final approval.

Accounting Disclosure

Accountability in financial reporting is a cornerstone of good corporate governance that complies with all applicable laws and regulations. According to the NCG code (2018), stakeholders may have a better understanding of the company's operations and make educated judgements when there is open and regular communication and involvement. To reiterate, one way to gauge a company's commitment to good corporate governance is by looking at the details it discloses in its annual reports. Earnings management and less creative accounting reporting are more common in companies with strong CG and accepted accounting disclosures, according to Beasley (1978) and McMullen (1996). To aid in economic decision-making, accounting disclosure entails providing stakeholders and other interested users with pertinent and important financial and non-financial information (Watts & Zimmerman, 1978). Management is less likely to go against owner interests in this way. Executives and board members have an obligation to keep shareholders and other stakeholders apprised of the company's financial situation and performance (Adeshina, Ikhu & Olaleye, 2015). If you look at the financial statements and see information that isn't in the main body—in the schedule or in the footnotes, for example—that's disclosure. This information is provided via the reports or financial statements.

Theoretical Framework

Stewardship Theory

The stewardship theory is a management idea that assumes that firm managers would operate in accordance with the owners' aims and plans, according to Kams (2011). When a company collaborates with its internal and external stakeholders to generate value, it is engaging in stewardship, say Abubakar and Murtala (2022). All members of society, including owners and managers, were a part of this concept. That is to say, managers have an obligation to the company's owners to justify anything they do that keeps the firm running. Because they both stress the importance of asset managers' "duty of care" to the principals who have placed their trust in them, stewardship theory and agency theory function well together as frameworks.

Legitimacy Theory

Rules designed to regulate people's actions and behaviours might find backing in the legitimacy theory. According to Suchman (1995), legitimacy theory is a set of long-standing rules for how people should conduct based on what society has traditionally

regarded as right. According to legitimacy theory, the level of information disclosure by a corporation reflects the social order that has been established due to environmental, political, economic, and legal factors. Williams (1999) asserts that these standards regulated the actions and disclosure frequency of companies operating inside a certain state. As a result, companies used this concept to justify and win over the public to their tactics (Patten, 1991 & Deegan, 2002).

Empirical Review

The relationship between the disclosure of accounting information by Nigerian banks and corporate governance was also investigated by Igbekoyi and Agbaje (2018). The results show that the number of directors serving on audit committees, the size of the board, the composition of audit committees, ownership structure, and the frequency and quality of audit committee meetings are some of the corporate governance mechanisms that greatly impact the disclosure of accounting information. Models including unit roots, co-integration, and error correction were utilised to examine and evaluate the data that was gathered from secondary sources.

Wobo and Ekeh (2024) studied deposit money banks in Nigeria and looked at factors including voluntary disclosure and audit committee tenure. As a stand-in for voluntary disclosure, non-financial information disclosure and strategic information disclosure were utilised. Data was compiled from the listed deposit money banks' financial statements and yearly reports, which are available in the Nigerian Exchange Group Fact Book. The data was collected beginning in 2010 and continuing until 2021. The researchers in this study utilised E-View 10 to evaluate the Ordinary Least Square (OLS) multiple regression model. Audit committee tenure was determined to have a considerable impact on the disclosure of non-financial information, but had no effect on the disclosure of strategic information, according to the study. When attempting to enhance strategic disclosures, audit committees should consider factors other than tenure, according to the research.

It is important to mention that Alqahtani's (2019) study examined the correlation between accounting transparency metrics and corporate governance traits in a sample of 120 non-financial firms traded on the Saudi Arabian stock exchange. Multiple variables, including gender diversity, audit firm type, foreign ownership, state ownership, and MD, are significantly correlated. There are negative connotations when a CEO juggles many duties and family members control the board. It was also shown that audit firm type, gender diversity, and foreign ownership were strongly connected with VD. A number of factors, including the CEO's multiple responsibilities, potential conflicts of interest with the royal family, and the general tone of the contract, are negative. All of the data used was extracted from the respective annual reports of the companies. We used Wilcoxon Signed-rank and Friedman rank, two content analysis methods, for our study and hypothesis testing. Two multivariate regressions, regression and conventional least squares, were also used.

Methodology

Secondary sources and an ex-post facto approach were employed by the researchers in this study. The primary data for this study came from publicly available sources, specifically the yearly reports that Nigerian corporations were required to file by the Nigerian Corporate Governance Code from 2013 to 2022. In this research, all statistics from 2013 through 2022 are taken into consideration.

Model Specification

Both independent and dependent variables are part of this research. In this study, board diligence and the external auditor are used as independent variables. The accounting disclosure is the dependent variable in this study. Below is the equation that states the model:

Model Specification

Board diligence (BDG) and the external auditor (EXA) are the independent variables. In this model, (X) represents the independent variable and (Y) represents the dependent variable, accounting disclosure (ACD).

$Y = f(ACD)$

$X = f(BDG, EXA)$

$Y = \beta_0 + \beta_1 X_1 + ... + \varepsilon$….. (1)

$ACD = \beta_0 + \beta_2 BDG_2 + ... + \varepsilon$….. (2)

$ACD = \beta_0 + \beta_2 EXA_3 + ... + \varepsilon$…… (3)

Where:

Y = Accounting Disclosure (ACD)

X_1 = Board Diligence (BDG) and External Auditor (EXA)

β_0 = Constant term

β_1 = Beta coefficients

ε = Error term

Data Analysis

The study's analytical findings are included in this section. Results from a variety of statistical tests, including a correlation analysis, a pooled OLS analysis, and the usage of E-view 10.0 to test hypotheses are detailed here. The choice was based on the p-value obtained from the regression analysis. The significance level for each hypothesis was set at 5% (0.05), with the null hypothesis being accepted if the computed p-value is more than or equal to 5% (i.e., Accept H0 if p-value ≥ 0.05). Otherwise, it would be rejected.

Table 1 Descriptive Statistics

	AD	EXA	BDG
Mean	0.719143	0.428571	3.471429
Median	0.755000	0.000000	4.000000
Maximum	0.900000	1.000000	11.00000
Minimum	0.450000	0.000000	0.000000
Std. Dev.	0.130448	0.498445	2.597219
Skewness	-0.338487	0.288675	-0.107152
Kurtosis	1.702195	1.083333	2.405119
Jarque-Bera	6.249220	11.68692	1.166113
Probability	0.043954	0.002899	0.558190
Sum	50.34000	30.00000	243.0000
Sum Sq. Dev.	1.174149	17.14286	465.4429
Observations	70	70	70

Accounting Disclosure (AD), External Auditor (EXA), and Board Diligence (BDG) descriptive statistics for 70 observations are shown in Table 1. Companies surveyed disclosed a considerable amount of information, with an average AD value of 0.719. Approximately 43% of instances included external auditors, according to the mean for EXA, which is 0.429. With a standard deviation of 2.60 and a mean of 3.47, BDG shows that the amount of board diligence meetings differed substantially throughout companies. Juxtaposed with EXA's somewhat positive skewness and BDG's near-symmetrical distribution, skewness and kurtosis statistics reveal that AD is negatively skewed. With the exception of BDG, which has a very normal distribution, the kurtosis values indicate that all of the other variables have flatter distributions. In contrast to BDG, which shows a normal distribution with a p-value of0.558, the Jarque-Bera test shows that AD and EXA depart from normalcy with p-values of 0.043 and 0.003, respectively.

Test of Hypotheses

HO_1: Board diligence does not have any significant effect on the accounting disclosure of quoted pharmaceutical companies.

HO_2: External auditor does not have any significant effect on the accounting disclosure of quoted pharmaceutical companies.

Table 2

Dependent Variable: Accounting Disclosure
Method: Least Squares
Date: 01/29/24 Time: 13:36
Sample: 2013 2022
Included observations: 70

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.516495	0.056130	9.201715	0.0000
EXAUD.	-0.024183	0.022717	-1.064529	0.2912
BDG	0.023333	0.006444	3.621069	0.0006

R-squared	0.785286	Mean dependent var	0.719143
Adjusted R-squared	0.764837	S.D. dependent var	0.130448
S.E. of regression	0.063259	Akaike info criterion	-2.588525
Sum squared resid	0.252106	Schwarz criterion	-2.363675
Log likelihood	97.59837	Hannan-Quinn criter.	-2.499212
F-statistic	38.40234	Durbin-Watson stat	1.295437
Prob (F-statistic)	0.000000		

With a p-value of just 0.2912, the negative correlation between accounting disclosure and external auditors (EXA) is statistically negligible (r=-0.024183). Based on this model, it appears that external auditors do not have a strong impact on accounting disclosure. It follows that the selected firms' degree of financial transparency is unaffected by their existence. Board diligence (BDG) has a coefficient of 0.023333 and a p-value of 0.0006, which is statistically significant. Therefore, more accounting transparency is a sign of a more diligent board. This positive correlation suggests that boards that are more active in their governance (i.e., have more regular meetings) also likely to encourage more open and honest financial reporting. Accounting disclosure may be described by the two independent variables, external auditors and board scrutiny, with an R-squared value of 0.785. The model's robustness is further supported by an adjusted R-squared of 0.764, which takes into consideration the number of predictors. With an F-statistic of 38.40234 and a p-value of 0.000000, we can say that the model fits the data rather well. The Durbin-Watson value of 1.295437 indicates a moderate, but not severe, worry for residual autocorrelation. Accordingly, while external auditors don't make much of a difference, board diligence is a big deal when it comes to improving financial transparency at Nigerian pharmaceutical businesses.

Discussion of Findings

For the period between 2013 and 2022, the results for the coefficient of 0.023333 in Hypothesis Four indicated that there would be an increase of 0.023333% in accounting disclosure for listed pharmaceutical businesses in Nigeria for every unit rise in Board diligence. Therefore, it appears that from 2013 to 2022, there is a clear correlation between the accounting disclosure of listed pharmaceutical businesses in Nigeria and changes in Board diligence. Given that the likelihood of 0.0006 is less than 0.05, we may reject the null hypothesis that Board diligence does not significantly affect the accounting disclosure of listed pharmaceutical businesses in Nigeria. The findings of Mishra et al. (2009), Vafeas (1999), and Adams & Ferreira (2009) corroborated each other, demonstrating that businesses' success in terms of corporate disclosures is positively correlated with board diligence.

According to the results of the fifth hypothesis, the accounting disclosure of listed pharmaceutical firms in Nigeria will decline by a factor of -0.024183% from 2013 to 2022 for every unit increase in the number of external auditors. This is indicated by the coefficient of -0.024183. This indicates that, from 2013 to 2022, there is an indirect association between the accounting disclosure of listed pharmaceutical businesses in Nigeria and the change of external auditors. Given that the probability of 0.2912 is larger than 0.05, we may reject the null hypothesis that claims that external auditors lead to less corporate governance and accounting disclosure of listed pharmaceutical businesses in Nigeria. Consistent with previous research, our conclusion confirms that external auditors significantly impact the disclosure of accounting information by companies (Carlos, Sabri & Amal, 2013; Shammimul, Syed & Robert, 2013; Alqathani, 2019). More accounting information is given in annual reports as a result of the impact of external auditors, according to Carlos, Sabri, and Amal (2013).

Conclusion and Recommendations

The results of this study indicate that listed pharmaceutical companies in Nigeria would benefit greatly from increased accounting transparency if board diligence and external auditors were present. The following suggestions were put out in light of the findings:

i. For publicly traded pharmaceutical companies, it is in their best interest to keep up the present level of board diligence, given the favourable impact of frequent board meetings on accounting information disclosure is substantial.
ii. In order to promote accountability, transparency, and good corporate governance, the management of the pharmaceutical business should keep using expert external auditors. In order for a company's internal control and audit system to work together effectively, external auditors ensure that all parts work together to provide high-quality accounting reports and that all parties willingly give relevant information. That is why it is critical to encourage an efficient channel of communication between the board and external auditors in order to strengthen business disclosures and accounting practices.

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