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# CORPORATE GOVERNANCE ACCOUNTABILITY AND COST OF EQUITY CAPITAL: EVIDENCE FROM NIGERIA QUOTED COMPANIES

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**Abstract:** The study examined the impact of corporate governance (CG) accountability attribute of financial information quality on cost of equity capital (CoEC) of quoted firms on the Nigerian Stock Exchange (NSE). A set of 20 quoted firms have been investigated to analyze the relationship for the period 2016-2020. Secondary data were used in the study, as sourced from the annual reports of the firms. Financial information quality was measured by abnormal accruals, financial transparency and independence of audit committee. The Dechow and Dichev, (2002) Model was used to determine the discretionary accruals, Collins and Kothari, (1989) model was used to determine financial transparency while Capital Asset Pricing Model (CAPM) was used to determine cost of equity. Data collected were analyzed using correlation analysis and ordinary least square estimation. The result showed that cost of equity is positively related to the value of abnormal accruals. The study also established a positive insignificant interrelationship between financial transparency and cost of equity of the sampled firm in the study while the positive relationship between auditor independence and cost of equity was insignificant. The study concluded that financial transparency has mild tendency of impeding cost of equity. Also, auditor independence can affect the cost of equity; and thus, auditor independence is a factor that influences firm's cost of equity in Nigeria. Hence, it was recommended that management of quoted firms should encourage their managers to pay greater attention to the quality of financial information, so also, the management of quoted firms in Nigeria should ensure audit independence and adequate training of audit committee members in line with global best practices.

***Keywords: Cost of equity, corporate governance, financial information quality.***

## 1.0 INTRODUCTION

An investor provides an employer with long-term money (Equity Shares, Preference Shares, Retained Earnings, and Debentures), and he clearly anticipates a positive return on his investment. The employer must be able to make enough money to fulfill the investor's expectations. The cost of capital is the minimal rate of return that a business must achieve on its investments in order to meet investors' expectations. Borrowing money or selling ownership shares are two ways businesses might raise cash. Debt and equity investors both expect a return on their investment, either in the form of interest or capital gains/dividends. Both the cost of debt and the cost of equity are factored into the cost of capital. The capital asset pricing model is one technique for corporations and investors to assess the cost of equity (CAPM).

The CAPM has been widely used (Ashton, 1995,Fama& French, 2004) because it recognizes risk. Tinic & Salih (2020) found that information asymmetry risk from the agency theory is a firm specific risk while Dongsae (1997) found that not all firm specific risks are diversifiable. This, therefore, affect the cost of equity capital (CoEC) demanded by investors.

Information asymmetry arises from owner-manager relationship under agency theory whereby ownership of the firm is separate from management therefore leaving control in the hand of the manager. This arrangement creates agency risk of information asymmetry for the shareholder as self-serving managers begins to pursue his personal interest at the detriment of creating shareholders value. There must be established a way to ensure the manager act in the interest of the shareholders and a system to monitor this.

The corporate governance (CG) accountability system is used to monitor conformity of manager's behavior with shareholders expectation and reduce information asymmetry. To this end the Financial Reporting Council released the Nigerian CG code 2018 which became effective from January 2020 to ensure necessary information about the firm for investment decision purposes is available to the public. The Nigerian CG experience has been slow in advancement compared to developed economy. Though there are institutions to promote adoption and ensure implementation of CG codes (Adekoya, 2011), companies do not comply with the codes due largely to board or management connection with political office holders who can influence regulatory agency not to enforce the noncompliance of company with the code (Nakpodia & Adegbite, 2018). There is also the challenge of multiple and conflicting codes which leave companies burdened with interpretation and compliance (Osemeke & Adegbite, 2016).

Therefore, there is limited information about the firm in the public which the investor can use in investment decision making process. Hence, the focus of this work is to explore the impact of CG attribute of financial information quality on cost of equity capital of companies listed on the Nigerian Stock Exchange. The research is conducted because there is little study known to have been done in this area on the quoted companies in Nigeria. The research efforts will therefore contribute to literatures on reasons firm should comply with corporate governance code in Nigeria. The broad aim of this study is to ascertain whether the corporate governance mechanism of accountability using financial information quality could reduce the agency risk, build confidence in shareholder thereby lower the cost of equity capital. To achieve the above aim and deliver reliable result, the study focused on the following objectives:

i. To determine the extent to which abnormal accruals affect CoEC in Nigeria;

ii. To examine the relationship between financial transparency and CoEC in Nigeria; and

iii. To assess the impact of independence of audit committee on CoEC in Nigeria.

The following research questions will guide the study

i. To what extent does the abnormal accruals affect CoEC?

ii. Does financial transparency have any relationship with CoEC?

iii. What impact does independence of audit committee have on CoEC

## 2. Literature Review

### 2.1 Conceptual Review

#### 2.1.1. Cost of Equity

Cost of equity is the return expected by the shareholder (principal) for investing in the firm (Lima & Sanvicente, 2013). This is the expectation of the principal in terms of

economic gains from the fund invested into and managed by the agent (management) appointed by the principal. As a result of the separation of ownership from control. Due to perceived risk from information asymmetry problem the principal will charge a premium due to perceived risks that threatens expectation.The perceived risk has been partly linked to agency problem of information asymmetry (Hughes, Liu, & Liu, 2007,Akins, Ng, & Verdi, 2012) and found to have impacted on the cost of equity capital (Fu, Kraft, & Zhang, 2012, He, Lepone, & Leung, 2013).To ensure minimal cost of equity capital, firms need to manage the information asymmetry arising from the principal-agent relationship. Scholars have explored corporate governance mechanism in mitigating information asymmetry risk (Fama & Jensen, 1983).

### 2.1.2 Corporate Governance

Company governance is a theory and system that includes procedures and structures that make it easier to create shareholder value by managing corporate affairs in a way that protects the individual and collective interests of all stakeholders. The agreement of investors and lenders is established on the foundation of sound corporate governance ideals.

The existence of an agency problem is commonly linked to corporate governance, and its roots may be traced back to the separation of ownership and control of a company. Agency concerns arise as a result of connections between shareholders and management, and are generally based on internal conflicts of interest. Conflicts of interest between controlling and minority shareholders are also a hot topic in the literature on corporate governance. The literature on corporate governance does not give enough clear evidence of a link between corporate governance, ownership, and the capital structure of a company.

Corporate governance has been a popular topic of study in management circles. An analysis of the literature suggests that empirical research is mostly focused on the impact of corporate governance on company performance or the impact of ownership structure on firm value. The link between corporate governance and capital structure, on the other hand, has not been well investigated. Only a few research have looked into this connection. (Berger, 1997, Friend & Lang, 1988, Wen, 2002, & Abor, 2007) investigate how corporate governance affects business capital structure decisions in established and emerging economies. However, few research on the link between corporate governance and capital structure for Nigerian listed businesses have been done.

Corporate governance accountability has been used to examine the impact of information asymmetry on various aspects of finance and accounting, including firm value (Carter, Simkins, & Simpson, 2003), cost of debt (Klock, Mansi, & Maxwell, 2005), performance (Bhagat & Bolton, 2008), and cost of equity capital (Ashbaugh et al., 2004), using various attributes such as board structure, ownership structure, audit quality, disclosure and quality of financial information, and regulatory influence.

### 2.1.3 Financial Information Quality

The stewardship theory despite its divergent view compared to agency theory still expect the management to give account of its activities (Keay, 2017) the worries in the accountability report is the level of accuracy, truthfulness, and correctness. It is the extent to which the report represents with accuracy of financial performance of the firm. Investor extracts most of the data used in their investment appraisal from the financial report of the firm when making investment decisions. How much of quality in the financial information therefore, impact on the level

of investor confidence in the decision taken. This level of confidence will result to the amount of risk premium investor attribute to the quality and quantity of financial information available when determining the rate of return from the investment. The information asymmetry becomes obvious in this regard and connects this attribute to CG. In determining financial information quality, this research work use independence of audit committee, abnormal accruals, and financial transparency as proxies.

### 2.1.4 Abnormal Accrual

Accruals are financial transactions which occurred and affects the bottom line but for which cash exchange is yet to take place. Total accruals are management's cash flow judgments and estimates to improve the accuracy of accounting earnings in reflecting a firm's underlying economic performance. Accruals can be described as discretionary and non-discretionary, the manager can use accruals in earnings management to either defer disclosure of earnings or declare huge income for personal gain. Abnormal accruals therefore are a signal to detect financial information quality. Higher abnormal accrual indicates lower earnings quality which in turn result to high CoEC (Ashbaugh et al., 2004) found relationship with CoEC (Bhattacharya, Ecker, Olsson, & Schipper, 2012a).

### 2.1.5 Financial Transparency

This is the extent to which financial information of a firm had been accurately disclosed and previous research works have found that firms with better disclosure achieve a lower cost of equity (Wei &Gaofeng, 2004, Ashbaugh et al., 2004, Dhaliwal, Dan, Li, Tsang, & Yang, 2014, Dhaliwal, Dan, Li, Tsang, & Yang, 2011).

### 2.1.6 Independence of audit committee

The CG code prescribed that the audit committee should have the responsibility of ensuring integrity of the financial information processing and reporting. The independent audit committee with financial knowledge to appoint internal and external auditors, consider their audit plan and monitor process that produce the financial report to eliminate misstatement and ensure correctness. It is to see that the statement does not have any misstatement.

Financial information quality therefore depends on the level of independence of the audit committee. Previous works revealed that firms with more independent audit committee have lower cost of equity capital (Ashbaugh et al., 2004).

## 2.2 Theoretical Review

### 2.2.1 Agency Theory

Agency theory is a concept used to explain the relationship between the agents and the principals. The agent represents the principal and their relative agent. The principal-agent in a corporate relationship take place with information asymmetry affecting the relationship. It occurs in different forms such as the principal adverse selection of agent due to hidden information (Arrow, 1985), agent's activities after appointment might not be known to the principal therefore resulting in fear that agent might pursue self-interest and not be working hard enough, or shirking known as hidden actions (Arrow 1985). All these threatens the principal's expectation from the agent. Posited by (Alchian & Demsetz, 1972) and expanded by (Jensen & Meckling, 1976). On the order hand the agent who is accepting the offer is risk averse and wants to manage that unlike the principal who has diversified (Shapiro 2005). This put the interest of the parties in a conflicting position and the principal then establish a means of accessing necessary information and monitoring the agent's

activities. Theoretical work assert that quality financial information reduces cost of equity capital through increase in market liquidity of the shares and reduction in transaction cost (Coeland & Galai, 1983) or by reduction in investor information risk (Diadmond &Verrecchia, 1991, Leuz & Verrecchia, 2005).

### 2.2.2Agency Risk Mitigation

The mechanism established by the principal, is to mitigate the information asymmetry risk which threatens his expectations of the agent. The principal had adopted various attributes which are part of the corporate governance accountability mechanism such as board composition, shareholding, compensation policy, financial information quality and ownership structure and shareholders right. All these attributes are codified in corporate governance code in different economic jurisdictions with variance in implementation requirement either it's by regulation or being voluntary for the firm to adopt.

## 2.3 Empirical Review and Gap Creations

There are several empirical research works on the relationship between corporate governance and cost of equity capital using different governance attributes and reported on country or global basis. For example Chen, Chen and Wei (2009) examined and found a negative impact of legal protection of investors at the firm level on cost of equity, Ashbaugh et al. (2004) using financial information quality, ownership and board structure to examine the effect of these attributes on cost of equity found relationships between the proxies and cost of equity, using Italian stock exchange listed stocks Mazzotta and Veltri (2014) Lima and Sanvicente (2013b),Ali Shah and Butt (2009) all examined corporate governance attributes at the national level and found good governance practice reduces cost of equity while firms with low governance rating incur higher cost of equity.

Examined at the international level, Guedhami and Mishra (2009) and Zhu (2014) reported that good corporate governance is consistently associated with lower cost of equity. Research effort on corporate governance in Nigeria has focused on issues such as firm performance (Ehikioya, 2009), dividend policy decision (Nwidobie, 2013), earning management (Adegbite, 2012). There is limited review of relationship and impact of governance attributes on cost of equity which is germane to firm determining. Empirical work reveals that earnings transparency and disclosure quality have negative relationship with CoEC using various proxies (Richardson & Welker, 2001) (Ashbaugh et al., 2004, Bhattacharya, Ecker, Olsson, & Schipper, 2012b, Dakhlaoui, Lajmi, & Gana, 2017).

## 3. Methodology

Ex-post facto research design was used in this study. The ex-post factor research method was chosen because it helps to explain the link between independent and dependent variables, which will aid in achieving the study's goals. The participants in this study were 20 of the Nigerian Stock Exchange's listed firms. The firms that were chosen have complete financial records for the time period under consideration. The list of quoted companies were obtained from Nigerian Stock exchange websites.

The data used for this study were secondary data derived from the annual financial statements of the selected companies. Annual reports of twenty (20) companies were randomly selected for the period 2016-2020 and obtained from the NSE. The study used data from the financial statements to measure the corporate governance variables while data for CoEC measurement is derived from the NSE database and Bloomberg.

**Measurement of Variables and Model Specification**

**Cost of Equity**

The cost of equity can be calculated by using the CAPM (Capital Asset Pricing Model). CAPM takes into account the riskiness of an investment relative to the market.

CAPM Model:

$E(R_i) = R_f + \beta_i * [E(R_m) – R_f]$

Where:

$E(R_i)$ = Expected return on asset i

$R_f$ = Risk-free rate of return

$\beta_i$ = Beta of asset i

$E(R_m)$ = Expected market return

**Abnormal Accruals**

The modified Jones model (Dechow et al, 1995) is used to determine aberrant accruals. The idea behind using accruals quality measures (Dechow and Dichev, 2002) as a proxy for financial reporting quality is that accruals are estimates of future cash flows, and earnings will be more representative of future cash flows when there is less estimation error embedded in the accruals process (Mc Nichols, 2002). The modified Jones model, according to Dechow et al (1995), is the most powerful model for calculating discretionary accruals.

The model is a regression of working capital accruals on lagged, current and future cash flows plus the change in revenue and plants, property and equipment (PPE). This makes accruals quality a better proxy for financial reporting quality using the Dechow and Dichev (2002) model. Discretionary accruals are obtained as follows:

DA = TACC – NDA 3.1

TACC = NDA + DA

Where TACC = total accruals

NDA = non discretionary accruals

DA = discretionary accruals

TACCit = a (1/ASSETSit-1) + a1 (Δ REVit – Δ RECit) + a2 PPEit + eit 3.2

Where TACCit = total accruals in year t for firm i

Δ REVit = revenues in year t less revenues in year t-1 for firm i

Δ RECit = receivables in year t less receivables in year t-1 for firm i

PPEit = gross property, plant and equipment in year t for firm i

eit = error term ( residuals) in year t for firm i

All variables are scaled by total assets year t-1

**Financial transparency (TRANS)**

The financial transparency proxy is based on several empirical studies, such as the studies of Ashbaugh et al. (2004, 2006), using Collins and Kothari (1989) model and is derived from the following equation:

RETit = β + β NIBEit + β LOSSit + β NIBEitLOSSit + β ΔNIBEit +ε it 3.3

Where:

RETi,t : Adjusted return for firm i in year t ;

NIPSi,t : Net income per share for firm i in year t ;

LOSSi,t: Is equal to one if NIPSi,t< 0 and zero otherwise ;

The residuals reflect the degree of price or return variation that is not explained by the accounting earnings (Gu, 2007).

**Independence of Audit Committee**

It's defined as the percentage of the audit committee members made up of outside independent directors. However, the model for this study is presented both in functional and linear forms below:

KE= f(AB, FT, AI)

$$KE_{it} = \beta_0 + \beta_1 AB_{it} + \beta_2 FT_{it} + \beta_3 AI_{it} + \varepsilon_{it}$$

Where $AB_{it}$ = Abnormal accruals in year t for firm i

$FT_{it}$ = Financial Transparency in year t for firm i

$AI_{it}$ = Audit Independence in year t for firm i

**3.1 Model specification**

The ordinary least square (OLS) regression analysis is used to examine the association between corporate governance and CoEC. The goal of the OLS Regression analysis was to see how much the related corporate governance variable might explain financial reporting quality, as well as the degree of link between the two sets of variables over the same time period.

***A-priori* Expectation**

**The *a-prior* expectation is that all explanatory variables are expected to exert positive impact on the dependent variable**

| S/N | VARIABLES | EXPECTED SIGN |
|---|---|---|
| 1 | Abnormal Accruals | Positive (+ve) |
| 2 | Financial transparency | Positive (+ve) |
| 3 | Independence of Audit Committee | Positive (+ve) |

**4.0 Results**

**4.1 Descriptive Analysis**

**Table 4.1: Descriptive Statistics**

| Stats | KE | AB | FT | AI |
|---|---|---|---|---|
| Mean | 4.056787 | -6.04e+09 | 78.54935 | 51.3627 |
| Sd | 1.774857 | 4.76e+10 | 8.552074 | 9.917916 |
| Variance | 3.150116 | 2.27e+21 | 73.13797 | 98.36505 |
| Skewness | .0416127 | -8.74824 | -3.634679 | .6219426 |

| | | | | |
|---|---|---|---|---|
| Kurtosis | 3.254707 | 77.69231 | 23.77493 | 6.948786 |
| Median | 4.16081 | -7559846 | 78.51717 | 50 |
| Max | 8.547 | 6.95e+08 | 103.1436 | 90 |
| Min | 0 | -4.26e+11 | 31.51412 | 25 |

**Source:** *Author's Computation (2021)*

Descriptive statistics presented in Table 4.1 revealed the mean, median, variance, standard deviation, skewness, kurtosis, minimum and maximum of the observations collated across the sampled firm in the study over time. The table depicted that financial transparency operation has the highest mean with value 78.54935 followed by audit committee independence with the average percentage of outsiders on the composition of audit committee 51.3% and 50% median with largest board of 90 members and minimum board of size 25. This suggest that 51.3 % of the auditor's member are independent on-executive shareholders nominated with audit experience and required qualification in accordance with Section 404(4) of the Companies and Allied Matters Act, 2020 in Nigeria on the composition of Audit committee.

Similarly Audit Committee Independence is the most volatile variable in the model with a standard deviation value of 9.917916 closely followed by financial transparency with standard deviation of 8.552074. The table further revealed that cost of equity, abnormal accruals, financial transparency and audit independence were leptokurtic in nature since the kurtosis values of all the variables is >3. Statistics presented above described each of the corporate governance variables and cost of equity as pooled over 20 quoted firms in Nigeria over a period of 5 years (2016-2020).

**4.2 Correlation Analysis**

**Table 4.2: Correlation Statistics**

| | KE | AB | FT | AI |
|---|---|---|---|---|
| KE | 1.0000 | | | |
| AB | 0.1130 | 1.0000 | | |
| FT | -0.0112 | -0.2035 | 1.0000 | |
| AI | 0.0543 | -0.0941 | -0.0285 | 1.0000 |

**Source:** *Author's Computation (2021)*

Table 4.2 showed the correlation among variables. The matrix shows that there is no significantly high correlation between any two explanatory variables because no correlation statistics of above 0.80 between the variable. It is evidence of no linear relationship between the explanatory variables. However, there is positive correlation between cost of equity and abnormal accruals with r = 0.1130, cost of equity and audit independence r =0.0543. This indicated that an increase in abnormal accruals, auditors independent will also lead to an increase in cost of equity. In the same vein, the correlation between cost of equity and financial transparency were found to be negative with r = -0.0112.

**4.3 Estimation of Abnormal Accrual**

This section presents the analysis of the result of the multivariate regression results using the modified Jones model given by Dechow et al. (1995), which is the modified version of the Jones model. The result are presented in Table 4.3

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**Table 4.3: Abnormal Accruals Model**

| Source | SS | Df | MS | Number of obs = | 80 |
|---|---|---|---|---|---|
| | | | | F(3, 76) =24.93 | |
| Model | 1.7643e+23 | 3 | 5.8810e | Prob> F = | 0.0000 |
| Residual | 1.7930e+23 | 76 | 2.3591e | R-squared = | 0.4960 |
| | | | | Adj R-squared = | 0.4761 |
| Total | 3.5573e+23 | 79 | 4.5029e | Root MSE = | 4.9e+10 |
| TACC | Coef. | Std. Err. | t | P>t [95% Conf. | Interval] |
| (1/ASSETSit-1) | 7.05e+15 | 1.98e+16 | 0.36 | 0.723-3.25e+16 | 4.66e+16 |
| (Δ REVit – Δ RECit) | -6.42e+08 | 1.61e+08 | -4.00 | 0.000 -9.62e+08 | -3.22e+08 |
| PPEit | -2.26e+08 | 4.08e+07 | -5.54 | 0.000 -3.07e+08 | 1.45e+08 |
| _cons | -6.04e+09 | 5.83e+09 | -1.04 | 0.303 -1.76e+10 | 5.57e+09 |

**Source:** *Author's Computation (2021)*

Table 4.3 showed the results of abnormal accrual model, following the model of Dechow et al. (1995). Table depicted that the impact of inverse of asset is positive and insignificant, with an estimate of 7.05e+15 (p=0.723>0.05), change in revenue and cash receivables exerts significant negative with an estimate of -6.42e+08 (p= 0.000 <0.05), while gross property plant and equipment exert negative significant impact with coefficient estimate of -2.26e+08(p= 0.000 <0.05). The table also showed an R-square statistics of 50% of the systematic variation in the dependent variables as explained by the independent variable. The table also the overall effect of the model with F(3, 76) =24.93 and (p= 0.000 <0.05). This provides indication that the Jones modified model reasonably fit the sample firm to determine abnormal accruals in Nigeria. This is in line with Prior research documents that the modified Jones model (Dechow et al., 1995) is effective but not in consonant with findings from Yoon and Miller (2002), and Yoon et al., (2006) who opined that the modified Jones model does not fit for Korean firms. Hence the generated model is given in equation 4.1

TACCit = 7.05e+15 (1/ASSETSit-1) -6.42e+08 (Δ REVit – Δ RECit) -2.26e+08(PPEit) + eit (4.1)

**4.4Estimation of Financial Transparency**

This section presents the analysis of the result of the multivariate regression results using the using Collins and Kothari (1989) model. The results are presented in Table 4.4

**Table 4.4: Financial transparency Model**

| Source | SS | Df | MS Number of obs =80 | |
|---|---|---|---|---|
| | | | F(4, 75) =0.03 | |
| Model | 5563.43187 | 4 | 1390.85797Prob> F = | 0.9987 |
| Residual | 4061904.04 | 75 | 54158.7206 R-squared = | 0.0014 |
| | | | Adj R-squared = | -0.0519 |
| Total | 4067467.48 | 79 | 51486.9301 Root MSE = | 232.72 |
| RET | Coef. | Std. Err. | T P>t [95% Conf. | Interval] |
| G | .0052431 | .0167783 | 0.31 0.756 -.0281811 | .0386673 |
| Loss | -10.03016 | 92.59244 | -0.11 0.914 -194.4838 | 174.4234 |
| H | -.005243 | .0167783 | -0.31 0.756 -.0386672 | .0281812 |
| I | 1.10e-07 | 3.58e-06 | 0.03 0.976 -7.03e-06 | 7.25e-06 |
| _cons | 88.5353 | 88.22041 | 1.00 0.319 -87.20877 | 264.2794 |

**Source:** *Author's Computation (2021)*

Table 4.4 showed the results of financial transparency model, following the model of Collins and Kothari (1989). The table also showed an R-square statistics of 14% of the systematic variation in the dependent variation in the dependent variables as explained by the independent variable. The table also the overall effect of the model with F (4, 75) =0.03 and (p= 0.9987>0.05). This provides indication that the financial transparency model does not effectively fit the sampled firm in Nigeria. Hence the model is given in equation 4.2

RETit= 88.5353 + .0052431(NIBEit) -10.03016(LOSSit)-.005243(NIBEitLOSSit)+1.10e-07ΔNIBEit+ε it (4.2)

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**4.5: Impact of Corporate Governance Attributes on Cost of Equity**

This section presents the analysis of the result of the multivariate regression results on the impact of corporate governance attribute on cost of equity.

**Table 4.5: Impact of Corporate Governance Attributes on Cost of Equity**

| Source | SS | df | MS | | Number of obs= | 80 |
|---|---|---|---|---|---|---|
| | | | | F(3, 76) = | 0.45 | |
| Mode | 3.98870864 | 3 | 1.32956955 | | Prob> F = | 0.7215 |
| Residua | 227.058743 | 76 | 2.98761504 | | R-squared = | 0.0173 |
| Total | 231.047452 | 79 | 2.92465129 | | Adj R-squared = | -0.0215 |
| | | | | | Root MSE = | 1.7285 |

| ke | Coef. | Std. Err. | T | P>t | [95% Conf. | Interval] |
|---|---|---|---|---|---|---|
| AB | 4.40e-12 | 4.19e-12 | 1.05 | 0.298 | -3.96e-12 | 1.28e-11 |
| FT | .0031271 | .0232531 | 0.13 | 0.893 | -.0431854 | .0494397 |
| AI | .0108835 | .0187859 | 0.58 | 0.564 | -.0265318 | .0482989 |
| _cons | 3.419908 | 2.111739 | 1.62 | 0.109 | -.7859843 | 7.625801 |

Table 4.5 depicted the impact of Abnormal Accruals (AB) on Cost of Equity (KE) is positive and insignificant, with an estimate of 4.40e-12(p=.0.298>0.05), Financial Transparency (FT) exerts insignificant positive impact on Cost of Equity (KE), with an estimate of .0031271 (p= 0.893>0.05), while the impact of Audit Independence (AI) on Cost of Equity (KE), is positive and insignificant. The table also showed an R-square statistics of 17.3% of the systematic variation in cost of equity of quoted sampled firm can be jointly explained by as Audit committee independence (AI), abnormal accruals (AB) and financial transparency (FT).

**Discussion of Findings**

Investigation conducted in the study to track the impact of corporate governance accountability mechanism on the cost of equity capital of quoted firms in Nigeria, was done through correlation analysis and ordinary least square estimations showing the impact of corporate governance accountability mechanism variables such as Audit committee independence, abnormal accruals and financial transparency on cost of equity capital. The descriptive statistics results in Table 4.1 revealed that the average percentage of outsiders on the composition of audit committee in Nigeria quoted firm is 51.3% with largest

board outside board member of 90 and minimum of 25 members. This suggest that audit member are independent non-executive shareholders nominated in accordance with Section 404(4) of the Companies and Allied Matters Act, 2020 in Nigeria on the composition of Audit committee.

This study established that there is positive correlation between cost of equity and abnormal accruals with r = 0.1130 as well as cost of equity and auditors independent r =0.0543. This indicated that an increase in abnormal accruals, audit independence will also lead to an increase in cost of equity and vice versa. While the correlation between cost of equity and financial transparency were found to be negative related with r = -0.0112.

Regression results in Table 4.5 of estimating the effect of corporate governance accountability mechanism on cost of equity. First the study found that abnormal accruals is positively insignificantly related to cost of equity with an estimate of 4.40e-12(p=.0.298>0.05), which showed that cost of equity will increase by an infinitesimal percentage of 4.40e-12, for every one million increase in abnormal accrual paid by the quoted firm. Hence, it evidence that the cost of equity is positively related to the value of abnormal accruals. This discovery suggests that the more the abnormal accrual by quoted firms, the higher the likelihood of increasing cost of equity for the year and vice versa. This is because by increasing the accruals quality, cost equity increases, too. Hence, the assertion that the quality of accruals affects the equity cost of the companies accepted on the Stock Exchange is confirmed. The results of this study are in agreement with the results of Mohammad (2017), Hamdi & Abdullah (2014).

Secondly, the study also found that financial transparency had a positive and insignificant impact on cost of equity of the quoted firm sampled in the study with estimates 0031271 (p= 0.893>0.05). This suggests that sound financial transparency practices impact positively on firms' cost of equity as earnings transparency reduce the cost of equity.

This study also revealed that audit independence exerts insignificant positive impact on cost of equity, which connote that the higher fraction of external member of auditor composition on, the higher the cost on equity. This discovery reflects that increase in effective audit management of quoted firms in Nigeria suggest restricted cost of equity, as increase in cost of equity due to higher effective audit management culminate into high cost on equity. Based on the results, it can be inferred that auditor independent can affect the cost of equity. The finding is consonant with earlier findings from Hajiha and Sobhani (2012) and Hermawan (2016). Lastly, from the findings of this study, it is evident that 17.3% of the systematic variation in cost on equity of quoted sampled firm can be jointly explained by as Audit committee independence (AI), abnormal accruals (AB) and financial transparency (FT).

**Conclusion and Recommendations**

Results showed that an increase in abnormal accruals culminate has substantial impact on the cost of equity by quoted firm sampled in the study. Hence, it evidence that the cost of equity is positively related to the value of abnormal accruals. However, increasing abnormal accrual is established to be a sine-qua-non for higher cost of equity among the quoted firm in Nigeria. The study established a positive insignificant interrelationship between financial transparency and cost of equity of the sampled firm in the study. Thus, it can be concluded that financial transparency has mild tendency of impeding cost of equity. The results

also showed that there is a positive insignificant relationship between auditor independence and cost of equity. This indicates that the higher the audit independence, the higher the cost of equity capital of a firm. Based on the results, it can be implied that auditor independence can affect the cost of equity; and thus, auditor independence is a factor that influences firm's cost of equity in Nigeria. Based on the overview of discoveries made in the study, the following recommendations are presented:

i) Management of quoted firms should encourage their managers to pay greater attention to the quality of financial information disclosure;
ii) Management of quoted firms in Nigeria should ensure audit independence and adequate training of audit committee members in line with global best practices.

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