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The Effects of Independent Audit Committee on the Accounting Policy Decisions of Nigerian Firms

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ARTICLE DETAILS	ABSTRACT
<p>History <i>Revised format: November 2019</i> <i>Available Online: December 2019</i></p> <hr/> <p>Keywords <i>Accounting Policy, Decisions, Audit Committee Independence</i></p> <hr/> <p>JEL Classification: <i>M14, M42</i></p>	<p>Purpose: The study examines the effects of the independent audit committee on the accounting policy decisions of firms. Managers use their discretion in accounting decisions against the interests of shareholders. Independent audit committees are relied upon by the shareholders for monitoring.</p> <p>Design/Methodology/Approach: Data were generated from the financial reports of the sampled firms and a model similar to Bowen DuCharme and Shores (1995) and Jackson, Xiaotao and Cecchini (2009) was used to estimate the predictive capacity of the independent audit committee in the process.</p> <p>Findings: It was found that the firms predominantly decided on income increasing policies but did not find any significant evidence that independent audit committee monitoring is effective on accounting decisions.</p> <p>Implications/Originality/Value: The firms set up audit committees not because they rely on them for effective monitoring but to fulfil statutory requirements of CAMA 2014, as amended. This conclusion is consistent with the view of Menon and Williams (1994). This evidence extends the literature of accounting choice in relation to the role of audit process.</p>

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1. Introduction

From the perspective of the agency theory, managers could be opportunistic by choosing accounting policies using their discretion to manipulate accounting income to optimize their benefits (Healy, 1985). Section 359: 3-4 of CAMA (2004) requires firms to establish an audit committee to safeguard the corporate accounting decision process to protect the interests of shareholders. The committee became a listing requirement in 1990 (CAMA, 2004) and the SEC code of 2011 institutionalized its independence with independent directors to foster effective monitoring. The independence of the audit committee came under attack for inadequate oversight in recent years in Nigeria (Chukwunedu, Ogochukwu and Chiedu, 2015). An independent audit committee is required to effectively protect the interests of shareholders from the managers. According to Carcello and Neal (2003) and Poretti, Schatt and Bruynseels (2018), the effectiveness of the audit committee depends majorly on its independence. The composition of the committee assumes a critical role assessing the quality of its monitoring of the accounting policy

decision process. The code of corporate governance requires that independent directors should compose half of the committee membership (SEC, 2011). It is hypothesized in this study that higher proportions of the independent directors in the committee would support effective monitoring of the accounting policy decisions of the firms to ensure that the incentives behind the selections of the methods are in the interest of the shareholders.

The audit committee started as a part of corporate governance mechanism in the US in the late 1930s (Bealing, Nelson and Staley, 2006) and became a listing requirement in 1972 (Fichtner, 2010). The Sarbanes-Oxley Act bolstered its institutionalization (Naciri, 2008). However, Menon and Williams (1994) observed that most firms do not rely on the committee to stimulate the eminence of the financial reporting process. Accounting policy choice is a discretion in the reporting permitted within GAAP (Bagnoli and Watts, 2005). Top management deploy this latitude to reduce the constraints imposed by their agency contracts in particular where managerial compensations are tied to reported income (Warfield, Wild and Wild, 1995). However, where the incentives of managers coincide with the owners' then accounting policy decisions would create information asymmetry and influence stock returns (Dhaliwal, Salamon and Smith, 1982; Fields, Lys, and Vincent, 2001). The need to meet up with and protect the interests of the firm's stakeholders serves as a significant incentive to accounting policy decisions (Ndjetcheu, 2012). Managers used their discretion in accounting policy decisions to manage the expectations of stakeholders with implicit claims (Bowen DuCharme and Shores (1995). A bonus plan compensation scheme is not popular among Nigerian listed firms. Therefore, managers' incentives for accounting choice would be for other purposes, such as managerial reputation and job security rather than financial compensation. Still, managers could be opportunistic in their choice of the accounting method because the impact is commensurate with that of the bonus plan.

The discretion of managers in accounting choice usually could be in the decisions to use either fair-value or cost method in reporting economic events of firms (Cairns et al. 2011). These measurements have different effects on the reported income and the prediction of the firm's future operating cash flows (Holthausen, 1990; Healy and Wahlen, 1999; Beneish, 2001). Some of these latitudes are found in International Accounting Standards (IAS) 2, 16, 38 and 40 for the measurements of inventory, property, plant and equipment, intangible assets and investment property respectively. Nigerian firms started using international standards to prepare financial statements since 2010 and managers utilize this discretion for opportunistic purposes. Independent audit committees are considered the ultimate mechanisms to ensure that managers are better monitored on this discretion (Klein, 2002; DeZoort, et al., 2002). Accounting policy decisions need to be closely monitored as they have similar objectives as the earnings management (Dhaliwal, Salamon and Smith, 1982; Fields, Lys and Vincent, 2001). However, the independence of the audit committee in Nigeria does not support effective monitoring on firms' accounting process (Moses, 2016; Oliver and Grace, 2017) and the management of the firms could use their discretion against the interest of the shareholders.

Fields, Lys and Vincent (2001) noted that studies (such as Dhaliwal, Salamon and Smith, 1982; Bowen DuCharme and Shores, 1995; Astami and Tower, 2006; Dey, Grinyer and Sinclair, 2008; Waweru, Ntui and Mangena, 2011; Isa, 2014) did not include the influence of the auditing process on accounting policy decisions. This has left out an important variable in the literature of accounting choice. According to Parker (1997) and Abbott and Parker (2000), there is growing evidence that the independence of an audit committee is vital to mitigating the adverse consequences of managers' discretions and the manipulations of the accounting process. The objectives of the study are, first, to examine the nature of accounting policy decisions of the firms and, second, to examine the effects of an independent audit committee on a firm's accounting policy decisions to provide the basis for assessing the relevant corporate governance code that affects audit committee independence. To the best of the knowledge of the researcher, the predictive capacity of the audit committee's independence on accounting policy decisions is yet to be addressed in any study. The next part of the paper presents the literature review, part three reports the research design, part four presents the results and discussions and, lastly, part five reports the summary and conclusions.

2. Literature Review

2.1 Accounting Policy Decisions

Accounting policy decisions would have income-increasing or income-decreasing effects on the firm's reported income permissive within the prescribed methods that lead to inefficient contracting (Bowen DuCharme and Shores, 1995; Watts and Zimmerman, 1978; Fields, Lys and Vincent, 2001; Francis, 2001). According to Isa (2014), Nigerian firms used accounting policies that increase their reported income.

The incentive to choose income increasing methods is then derived by the need to: increase managerial compensation, particularly when tied to reported income, avoid firms' violating debt covenants and reduce their political costs (Watts and Zimmerman, 1978 and 1990). The bonus-plan and debt violation explanations do not apply to the Nigerian business environment. Ndjetcheu (2012) argued that firms in the Sub-Saharan Africa select accounting policies that reduce the tax burden, consistent with Zmijewski and Hagerman (1981). There are other implicit incentive obligations to the firms that could apply to Nigeria discovered to be associated with accounting policy decisions (Bowen DuCharme and Shores, 1995; Jackson, Xiaotao and Cecchini, 2009). These include labour intensity in organizations and continuous patronage of short-term creditors and the suppliers of inputs. The concentration of ownership and owner-control boards also predicts the decisions on which accounting policy to adopt by firms (Dhaliwal, Salamon and Smith, 1982; Dhaliwal and Schepanski, 1984; Astami and Tower, 2006; Isa, 2014). Whichever incentives derive management decisions on accounting policies in Nigeria, company law requires audit committees to scrutinize their appropriateness before the financial statements are finalized and the oversight could only be effective with the independence of the committee.

2.2 Audit Committee Independence and Accounting Policy Decisions

According to the agency theory, managers would always try to achieve this purpose given their discretion in selecting accounting policies (Healy, 1995). Audit committees should be composed of competent members with the authority and the resources to secure shareholders' interests against managerial manipulations of accounting methods for personal gain (DeZoort *et al.*, 2002). The code 2011 requires half of the committee's membership (three independent directors) to make the six-man committee independent. Audit committee independence is considered critical to its effective oversight functions (Poretti, Schatt and Bruynseels, 2018). Thus, a higher presence of outsiders in the committee increases its level of independence and the ability to check the CEOs and prevent managerial opportunism. The results of Cacello and Neal (2000) support the idea that the audit committee should comprise entirely independent directors. Abbott, Park and Parker (2002) found that audit committees composed of outsider directors are likely to safeguard the integrity of the financial reporting process.

Studies such as Cacello and Neal (2000) and Li, Lin and Yang (2006) found that audit committee independence was not significant in securing the interests of shareholders in the latitudes accounting process provided for managers. However, Abbott and Park (2000), Anderson, Mansi and Rebb (2004), Sharma and Chunli (2014), Soliman and Ragab (2014), Oliver and Grace (2017), Musa, Oloruntoba and Oba (2014), Ayemere and Elijah (2015), Chandrasegaram *et al.* (2013), Hamdan, Mushtaha and Al-Sartawi (2013), Salleh and Haat (2014), Wiralestari and Tanzil (2015), Kamolsakulchai (2015) and Habib and Bhuiyan, (2016) found contrary evidence. The evidence has been mixed across countries depending on the institutional enforcements of each country. In countries where there are stronger institutions, the functions of audit committees are enhanced and also their ability to fulfill their obligations becomes much easier (Cacello and Neal, 2003). Nigeria belongs to a group of LDC countries categorized with weak institutional enforcement.

2.3 Audit Committee Monitoring and Financial Reporting Process

Cacello and Neal (2003) found that an independent audit committee reduces the risk of corporate failure. Menon and Williams (1994) posed that most firms just comply with the legal requirement but not because they are performing their expected roles. In Nigeria, the audit committees monitoring performance could be considered as ineffective and the committee a mere legal compliance. For instance, Chukwunedu *et al.* (2015) showed that audit committees are faced with practical and legal constraints that have adversely affected their ability to adequately monitor the accounting process. Professional accounting bodies and the public are wary of the committees reports. The committee enjoys inadequate managerial backing with inconsequential faith, fewer responsibilities and unwilling respect (Atu, 2014).

Studies such as Bala (2014) and Isa and Farouk (2018) in Nigeria discovered that committees have been effective in their monitoring role, but much is left to be desired on their independence. To make the committee more independent and effective in monitoring, the drafted Nigeria Code of Corporate Governance (NCCG), which becomes effective by January 2020, proposed that the committee composed of only independent directors. Prior studies such as Bowen DuCharme and Shores (1995), Astami and Tower (2006), Dey, Grinyer and Sinclair (2008), Jackson, Xiaotao and Cecchini (2009), Waweru, Ntui and Mangena (2011), Isa (2014) and Acaranupong (2017) in the literature of accounting choice did not examine the independence of the audit committee as a predictor of the

accounting policy decisions of firms. This study tests the significance of audit committee independence on accounting policy decisions within this context to validate the proposition of the agency theory.

3. Research Design

Fifty-eight firms from the 114 non-financial firms listed on the NSE were studied from 2012-2016. The data were extracted from the financial statements. A model similar to Bowen, DuCharme and Shores (1995) and Jackson, Xiaotao and Cecchini (2009) was modified and adapted to assess the predictors of the audit committee independence on firms' accounting policy decisions. The model specification is:

$$APC = \beta_0 + \beta_1 ACI_{it} + \beta_2 BCM_{it} + \beta_3 LEV_{it} + \beta_4 FSZ_{it} + \beta_5 PRT_{it} + \beta_6 LBR_{it} + \beta_7 TAX_{it} + \beta_8 STC_{it} + \beta_9 SPL_{it} + \epsilon_{it}$$

APC_{it} is a dependent variable that represents the accounting policy decisions of firms. It is the ratio of the accounting policies of assets, which have the effects of increasing the reported income over the total assets accounting policies adopted and disclosed by the firms (Waweru, Ntui and Mangena, 2011). In this study, only the accounting policies on assets were considered because they provided widely used managerial discretion for accounting choice used in Nigeria. ACI_{it} is an explanatory variable that represents the audit independence committee. It is measured as the natural log of the numbers of the committee, who represent shareholders over the number of members, who represent directors (Isa and Farouk, 2018). There is growing evidence on the association of audit committee effectiveness and its oversight on the firm's accounting process (Parker, 1997; Abbott and Parker, 2000). This justifies the choice of the ACI_{it} as an explanatory variable on the accounting policy decisions of firms.

The explanatory variables in the model include the traditional predictors of accounting policy decisions of firms used by previous studies, such as Bowen, DuCharme and Shores (1995), Astami and Tower (2001), Jackson, Liu and Cecchini (2009), Waweru, Ntui and Mangena (2011) and Isa (2014). These include: FSZ_{it} that represents the size of the firm which is measured as the natural logarithm of the firm's total sales; LEV_{it} represents the leverage of the firm and is measured as the ratio of the long-term borrowings to the shareholders' equity (0 if long-term borrowing is missing). And PRT_{it} represents the profitability of the firm which is measured as the ratio of net income to adjusted total assets. BCM_{it} represents board independence and is found significant in Waweru, Ntui and Mangena (2011) and Isa (2014). It is measured as the ratio of non-executive directors to the size of the board. The other category of traditional predictor variables for stakeholder expectations are based on party implicit claims: STC_{it} represents creditors' expectations; it is measured as the ratio of short-term borrowings to equity; CGS_{it} represents suppliers' expectations; it is measured as the natural logarithm of the cost of sales scaled by adjusted total assets. LBR_{it} represents employee expectations; it is measured as one minus the ratio of gross PP and E to adjusted total assets (Bowen, DuCharme and Shores, 1995; Jackson, Xiaotao and Cecchini, 2009; Waweru, Ntui and Mangena, 2011; Ndjetcheu, 2012) and TAX_{it} represent government expectations; it is measured as the natural logarithm of the accrued tax expenses scaled by adjusted total assets (Ndjetcheu, 2012).

4. Results and Discussions

4.1 Descriptive Statistics

The descriptive statistics are reported in Table 1. APC_{it} , (accounting policy decision) has a mean of 0.74. This implies that the firms averagely choose income increasing policies. The mean of ACI_{it} is 2.74. This implies that the average outsiders in the committees are slightly below the required minimum. Further description of the composition of the audit committee's independence is reported in Table 2. The average value of the firms' size (FSZ_{it}) is \$117.10 with a standard deviation of \$201.96. These are accompanied by a maximum observation of \$1,081 billion and a minimum less than \$0.07 billion. These indicate greater variability among the firms because they are drawn from the various subsectors of the manufacturing sector.

Table 1: Descriptive Statistics

	N	Mean	Stdev	Min	Max
APC	290	0.74	0.18	.25	1.00
BCM	290	0.66	0.17	0.00	1.00
FSZ (billion \$)	290	117.10	201.96	0.07	1,081.15

LEV	290	0.27	0.51	0.00	5.17
PRT	290	0.07	0.14	-0.39	0.79
SPL (billion \$)	290	81.00	134.00	0.12	621.00
LBR	290	0.56	0.25	0.00	1.00
STC	290	0.13	0.15	0.00	0.82
ACI	290	2.74	0.51	1.00	5.00
TAX	290	16.43	7.93	25.27	0.00

This Table presents the description statistics of the study variables.

Table 2 presents the frequencies of the number of independent directors in the audit committee. The number of outsiders who represent shareholders in the committee among the firms ranges from 1 to 5 among the committees. It is revealed that about 26% of the audit committees had 2 outsiders. This is less than the benchmark of three outsiders prescribed by the code. However, about 72% of the committees had three outsiders as members which comply with the Code. Furthermore, it is discovered that only 1% and 0.4% of the audit committees had 4 and 5 outsiders respectively, which implies the highest level of independence. It could be stated that the majority of the audit committees enjoyed the purported amount of independence. These results imply significant compliance with the provisions of the Code.

Table 2: Frequency of Outsiders in Audit Committee

Number of Outsiders	2012 %	2013 %	2014 %	2015 %	2016 %	Mean (%)
1	0.02	0.02	0.02	0.00	0.02	0.014
2	0.26	0.25	0.26	0.26	0.25	0.256
3	0.72	0.74	0.68	0.72	0.72	0.716
4	0.00	0.00	0.02	0.02	0.02	0.010
5	0.00	0.00	0.02	0.00	0.00	0.004

This Table presents the frequencies of ACs outsiders, meetings and membership vis-à-vis the statutory benchmark.

4.2 Accounting Policy Choice Decisions

Table 3 presents the count of accounting policy decisions of the sampled firms on accounting policy on property, plant and equipment (PPE), goodwill (GDWL), software (SFTW), inventory (INVT), investment property (INVP) and depreciation methods (DEPM). From the results, the firms adopted the cost method (income increasing policy) 87% for PPE, 53% for GDWL, 94% for SFTW and 57% for INVP of the decisions. All the decisions on the depreciation method by the firms favoured a straight-line method. Bowen, DuCharme and Shores (1995), Astami and Tower (2006) and Waweru, Ntui and Mangena (2011) classified the straight-line method as income increasing. It is discovered that 71% of the policy decisions on INVT was the average cost method. Bowen, DuCharme and Shores (1995) considered the straight-line method as an intermediate policy (between FIFO (income increasing) and LIFO (income decreasing)). The results further indicate that the fair-value (income decreasing) method was not favoured by the policy decisions of the firms; they adopted only 5% and 6% of the decisions for PPE and SFTW, respectively. However, the policy was adopted for GDWL 47%.

Overall, it is discovered that an average of 69% of the firms' decisions favoured the income increasing policies, 29% of the decision adopted the income decreasing methods and 2% adopted mixed policies. This implies that firms predominantly used income increasing policies. This is consistent with the finding of Bowen, DuCharme and Shores (1995), Astami and Tower (2006), Waweru, Ntui and Mangena (2011) and Isa (2014).

Table 3: Accounting Policy Decisions of Firms

	Disclosure	Income increasing	Income decreasing	Mixed
Depreciation Method	1.00	1.00	0.00	0.00
Property, Plant and Equipment	1.00	0.87	0.05	0.08
Goodwill	0.16	0.53	0.47	0.00
Intangible Assets Software	0.64	0.94	0.06	0.00
Inventory	1.00	0.23	0.71	0.06
Investment Property	0.26	0.57	0.43	0.00
Mean	0.68	0.69	0.29	0.02

This Table presents the distribution of decision on accounting methods made by firms between 2012-2016.

4.3 Analysis of the Regression Results

Table 4 presents a summary of the regression results. The Adjusted R² indicates that 24.83% of the changes in accounting policy decisions are explained by the variables composed in the model, which is higher than the moderate value of 19% suggested by Chin (1998). The F-ratio is 11.61 along with a p-value of 0.0000. This indicates that the model is significant and good for estimating the incentives for accounting policy decisions of firms. Several tests were conducted to ensure that the assumptions of regression analysis were not violated. For instance, the constant variance assumption was tested using Breusch-Pagan and the null hypothesis was not support (chi-square = 1.80, p-value = 0.1792) which indicates that heteroskedasticity is not a problem. Skewness/Kurtosis tests for the normality test was conducted and the results indicated that data were normally distributed (the joint chi-square = 2.92, p-value = 0.2327. The variance inflation factor test showed a Mean VIF 1.69 (maximum of 2.60 for TAXit and minimum of 1.08 for BCMit). According to Craney and Surles (2002), no formal criteria exists for deciding if VIF is too large, but a value greater than 10 indicates a strong presence of multicollinearity that requires remedial measures. There were very few outliers outside the threshold of ± 2 based on studentized residuals analysis which were not significant.

From the Table, it is discovered that *AClit*, is not significant (t-statistics = 0.63, p-value = 0.526). This implies that the audit committee's independence level does not ensure effective incentive monitoring on the accounting policy decisions of the management. This result is inconsistent with the findings of Abbott and Park (2000) which states that firms with independent audit committees are more vigilant and ensure the objectivity and integrity of the accounting process. Contrary to Carcello and Neal's (2003) and Poretti, Schatt and Bruynseels' (2018) results, the findings did not validate the agency theory perspective that the presence of an independent audit committee would improve monitoring in favour of shareholders. However, consistent with previous studies (Waweru, Ntui and Mangena, 2011; Isa, 2014), the results indicated that an independent board (*BCMit*) is significant (z-values = 3.44; p-values = 0.001) to the firms' accounting policy decisions. This implies that the central boards have taken over the responsibility of monitoring accounting process from the committees.

Stakeholder expectations are found to be significant predictors of the accounting policies decided upon by management. For instance, *TAXit*, (z-values = 2.31; p-values = 0.022), *CGSit*, (z-values = 5.56; p-values = 0.000) and *STCit* (z-values = 4.52; p-values = 0.000) are significant to the decisions. This supports that firms recognize each stakeholder's expectations based on their implicit claims and merit consideration for its own sake in the accounting policy decisions (Donaldson and Preston, 1995), which is consistent with Bowen DuCharme and Shores (1995). The traditional predictors of accounting policy choice (Watts and Zimmerman, 1978) are found significant: *PRTit*, (z-values = 1.67; p-values = 0.097) and *LEVit* (z-values = 1.84; p-values = 0.067) except the political costs hypothesis. This is contrary to the view of Ndjetchou (2012). The bonus plan and the debt covenant hypotheses though significant are applicable in different contexts other than for managerial compensations and firms' risk

control. These results imply that the managers' incentives to accounting policy decisions were derived by the quest to maximize shareholders' wealth, which could be aligned to managerial intentions to secure jobs and reputations.

Table 4: Regression Summary

	Coefficient	Std. Error	t-value	Sig.
Constant	0.4676	0.1223	3.82	0.000
ACI	0.0316	0.0498	0.63	0.526
BCM	-1.9543	0.5686	-3.44	0.001
LEV	0.1818	0.0988	1.84	0.067
FSZ	4.4524	7.1484	0.62	0.534
PRT	-0.1518	0.0912	-1.67	0.097
LBR	-0.0311	0.0242	-1.28	0.201
TAX	0.0042	0.0018	2.31	0.022
STC	-0.3316	0.0734	-4.52	0.000
SPL	0.0121	0.0022	5.56	0.000
Adjusted R2			0.2483	
F-value			11.61	
P-value			0.0000	

5. Conclusions

The study examined the impact of audit committee independence on accounting policy decisions by linking the monitoring incentives on the efficiency of the management choice of accounting policy. Fifty-eight listed firms in Nigeria were studied for 290 accounting years. Data were collected from the available financial reports of the firms and analysed using a model similar to Bowen DuCharme and Shores (1995) and Jackson, Xiaotao and Cecchini (2009). The results showed that the firms predominantly used income increasing accounting policies, which include cost model and straight-line depreciation method, which implies income increasing strategy. It also discovered that a significant number of the audit committees have met up the required number of independent directors as prescribed by the 2011 code of corporate governance, which is meant to strengthen their independence for effective monitoring. However, this did not ensure effective monitoring of the accounting policies selections. Boards monitoring suppressed that of the audit committees because either the committees are not given the required authority or they have been passive. This implies that the interests of management and those of the shareholders in the selection of the accounting policies are aligned. This brings the oversight of the committees to the limelight once again. Thus, the firms setup the audit committees not because they wanted to rely on them for effective monitoring but to fulfil the statutory requirement of CAMA 2014 as amended. This conclusion is consistent with the view of Menon and Williams (1994). This discovery is contrary to the views of Fields, Lys and Vincent (2001) and Ndjetecheu (2012): audit process does not ensure effective monitoring on accounting policy decisions. This evidence extends the literature of accounting choice in relation to the role of audit process.

These findings have implications for FRCN to reinforce the committees to be effective in monitoring. Although the new code, which becomes effective January 2020, requires the committee to be composed mainly of independent directors, they would need the required authority to undertake their oversight functions. Members of the committee should be required to engage in periodic capacity development and self-assessment for quality control for responsible engagement in their monitoring functions. The study makes a major contribution to the accounting policy choice literature, as it relates to audit committee independence. Further studies can focus on evaluating the authority of the committee and the financial literacy of members in Nigeria.

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APPENDIX

```
. regress apc nlogaci bcms levs szes roa lbr tax stc cgs
```

Source	SS	df	MS	Number of obs =	290
Model	2.45728023	9	.273031137	F(9, 280) =	11.61
Residual	6.58580781	280	.023520742	Prob > F =	0.0000
				R-squared =	0.2717
				Adj R-squared =	0.2483
Total	9.04308805	289	.031290962	Root MSE =	.15336

apc	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
nlogaci	.0316011	.0497737	0.63	0.526	-.066377 .1295791
bcms	-1.954275	.5686455	-3.44	0.001	-3.073638 -.834912
levs	.181763	.0988094	1.84	0.067	-.0127406 .3762667
szes	4.452446	7.14841	0.62	0.534	-9.619002 18.52389
roa	-.1518163	.0911783	-1.67	0.097	-.3312983 .0276656
lbr	-.0311059	.0242424	-1.28	0.201	-.0788263 .0166145
tax	.0042398	.001835	2.31	0.022	.0006277 .0078519
stc	-.3315746	.0733767	-4.52	0.000	-.4760146 -.1871347
cgs	.0120814	.0021724	5.56	0.000	.0078051 .0163578
_cons	.4675622	.1223418	3.82	0.000	.2267358 .7083886

```
. predict myres, resid
```

```
. sktest myres
```

Skewness/Kurtosis tests for Normality

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	joint Prob>chi2
myres	290	0.1296	0.4383	2.92	0.2327

```
. estat hettest
```

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of apc

chi2(1) = 1.80

Prob > chi2 = 0.1792

```
. pwcorr nlogaci bcms levs szes roa lbr tax stc cgs, sig
```

	nlogaci	bcms	levs	szes	roa	lbr	tax
nlogaci	1.0000						
bcms	0.2132 0.0003	1.0000					
levs	0.0275 0.6406	-0.1421 0.0154	1.0000				
szes	0.4794 0.0000	0.1541 0.0086	-0.0559 0.3425	1.0000			
roa	0.1009 0.0863	0.0561 0.3411	-0.3301 0.0000	0.2909 0.0000	1.0000		
lbr	0.1070 0.0690	0.0263 0.6560	-0.0464 0.4315	0.0845 0.1514	0.0830 0.1588	1.0000	
tax	0.2326 0.0001	0.1503 0.0104	-0.3510 0.0000	0.5367 0.0000	0.6801 0.0000	0.1315 0.0252	1.0000
stc	0.0866 0.1412	-0.0754 0.2007	0.5400 0.0000	-0.0051 0.9311	-0.3690 0.0000	0.0547 0.3535	-0.2728 0.0000
cgs	0.0335 0.5697	-0.0076 0.8969	-0.0174 0.7678	0.4778 0.0000	0.1742 0.0029	-0.1836 0.0017	0.2353 0.0001

	stc	cgs
stc	1.0000	
cgs	0.0144 0.8072	1.0000

. estat vif

Variable	VIF	1/VIF
tax	2.60	0.384496
szes	2.34	0.426738
roa	2.03	0.491612
stc	1.55	0.644519
levs	1.54	0.648056
cgs	1.50	0.668534
nlogaci	1.44	0.694560
lbr	1.11	0.904941
bcms	1.08	0.922585
Mean VIF	1.69	

