

The Relationship between Audit Committee and Other Corporate Governance Variables in Nigerian Banks

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Abstract: *This study examined the relationship between audit committee and other corporate governance variables in Nigerian banks. Both primary and secondary data were used. While the Primary data was used to test the hypotheses using Chi-square and Student-t tests, the secondary data was subjected to multiple regression analysis. The study found that the banks had significantly complied with the Central Bank of Nigeria (CBN) Code of Corporate Governance 2006 regarding the composition of audit committees and that a significant positive relationship exists between audit committee activity and the proportion of non-executive directors on the board. Low monitoring activity of the audit committee was found to have significantly contributed to the distress of some banks in Nigeria between 2009 and 2010. The study recommends the harmonization of some sections of the Securities and Exchange Commission (SEC) Code of Corporate Governance 2011, with those of CBN code 2006.*

Keywords: *Audit committee, Corporate governance, CEO-duality, Financial literacy, Banks, Committee expertise.*

Date of Submission: 22-11-2019

Date of Acceptance: 06-12-2019

I. Introduction

1.1 Background to the Study

There is an on-going debate as to whether the audit committee of limited liability companies are living up to their responsibilities. They seem to have been caught in a cross-fire of the ever growing debate to resolve the problems created by the principal-agency relationship in companies. As the debate rages, and following corporate scandals in most of the developed world, a number of recommendations to improve the administration of publicly quoted companies in different countries have focused attention on the importance of corporate governance in protecting the interest of shareholders (Olatunji, & Ojeka, 2011).

As noted by Mautoussi, & Gharbi, (2011), the collapse of many big companies, starting with ENRON in 2001 which was heightened with Lehman Brothers in 2009, damaged seriously the confidence in accounting numbers and the ability of financial markets to price financial assets correctly. In all these corporate scandals, the obvious lesson to be learnt, especially from the collapse of high profile banks like Lehman Brothers, Barings Bank, Merrill Lynch, Washington Mutual and All States Trust Bank, is that no bank is too big (capital base or otherwise) to fail (Kama, & Chuku, 2009).

Several studies have been carried out on the relationship between corporate governance and firm performance (Mayer, 1997; Kyereboah-Coleman, 2007; Garcia-Meca & Sanchez-Ballesta, 2009; Sanda, Mikailu, & Garba, 2005). Some studies have also focused on the relationship between corporate governance and the credibility of financial statements (Dabor, & Adeyemi, 2009; Gulzar, & Wang, 2011).

In all these studies, there seems to be an understanding that board committees are increasingly assuming the important role of monitoring and governance of companies (Uzun, Szweczyk, & Varma, 2004). It is to be noted however, that few studies like (Hamid, 2009; Thoopsamut, & Jaikengkit, 2008) have attempted to examine the relationship between audit committee and other corporate governance variables. There are, however, no known studies seeking to examine how the activities of the audit committee have been influenced by other governance variables in Nigerian Banks. This study sought to fill this gap.

1.2 Statement of the Problem

The failure of many modern companies has attracted a lot of criticisms against the audit committee of companies. For instance, the Vanguard Newspaper of February 28, 2010 reported that the Securities and Exchange Commission (SEC) and financial experts indicted audit committees of quoted companies for their ineffectiveness in discharging their roles and functions as empowered by the Companies and Allied Matters Act (CAMA), Cap 20, Laws of the Federation of Nigeria 1990.

This, the Vanguard (2010) noted, came at the same time when there were several criticisms of the external auditors and inspectors from the Central Bank of Nigeria (CBN) over their inability to detect and report anomalies in the financial results of some troubled banks whose managing directors and executive directors were sacked by the apex bank for eroding corporate governance and misuse of shareholders and depositors' funds. The issue of whether banks' audit committees are effective also came under scrutiny in Hamid, (2009), when he asserted that: "Some banks in the Nigerian banking industry had up to three executive directors in their audit committees, thereby preventing the inclusion of a single non-executive director in the committee."

This situation Hamid, (2009) observed, is not good for the effectiveness of control mechanisms that could institute safeguard operations, and it violates the provisions of CBN Code of Corporate Governance for Banks, 2006 (which forbids the appointment of executive directors into audit committees). Similarly, Dabor & Adeyemi, (2009) posit that there is an inexplicable link between corporate governance and board effectiveness. Furthermore, Oghojafor, *et al.*, (2010) assert that poor governance culture and supervisory laxities were mostly responsible for the current banking crisis in Nigeria. Nonetheless, the CBN Code of Corporate Governance, 2006, specifies that: "The audit committee will be responsible for the review of the integrity of the Banks financial reporting and oversee the independence and objectivity of the External auditors."

This study is another attempt to extend and contribute to the body of knowledge using Nigerian data to investigate how audit committee relates with other corporate governance variables.

1.3 Objectives of the Study

The aim of the study is to establish the type of relationship that currently exists between the Audit Committee activity as a tool of Corporate Governance and other Corporate Governance variables in Nigerian banks. The objectives of the study are to:

- i. examine the extent of compliance of Nigerian banks with the CBN Code of Corporate Governance regarding the composition of audit committees.
- ii. examine the relationship between audit committee activity and the proportion of non- executive directors on the board of Nigerian banks;
- iii. establish the relationship between managerial ownership and audit committee activity and ownership structure in Nigerian banks;
- iv. examine the relationship between audit committee activity and committee expertise in Nigerian banks;
- v. determine whether audit committee activity is related to low profitability and distress of some banks in Nigeria;
- vi. proffer recommendations for enhancing the effectiveness of audit committee through other corporate governance mechanisms in Nigerian banks.

1.4 Significance of the Study

There is a dearth of literature attempting to examine the relationship between audit committee activity and the way it is influenced by other corporate governance variables generally, and Nigerian banks in particular. It is our hope that this study would expand the frontiers of knowledge over the years and exploring the changes in its understanding and perception.

The results of the study are expected to benefit shareholders who put their resources in banks in form of capital. As they desire to protect their investment, they would obviously want to ensure that only persons who possess the competence are appointed as audit committee members at the Annual General Meetings.

From the legislative gaps identified in the literature, and the recommendations proffered, the regulators could be encouraged to initiate the process of amending the conflicting provisions in the composition and appointment of audit committee members as it relates to CAMA, 1990 (as amended), CBN Code 2006 and SEC's Code of Corporate Governance, 2011. It is equally hoped that the recommendations made in the study would encourage government to punish violators of good corporate governance in Nigerian banking industry.

1.5 Research Questions

Based on the objectives stated in section 1.3 above, the following research questions were developed:

- i. To what extent have Nigerian banks complied with the CBN Code of Corporate Governance, 2006, regarding the composition of audit committees?
- ii. What is the direction of the relationship between audit committee activity and the proportion of non-executive directors on the board of Nigerian banks?
- iii. What is the relationship between audit committee activity and ownership structure in Nigerian banks?
- iv. To what extent is audit committee activity influenced by CEO-duality in Nigerian banks?
- v. To what extent does the presence of financial experts enhance audit committee activity in Nigerian banks?
- vi. To what extent has monitoring activity of the audit committee contributed to the recent distress of some banks in Nigeria?

- vii. How can audit committee activity be improved using other corporate governance mechanisms in Nigerian banks?

1.6 Research Hypotheses

In the light of the above research questions, the following null hypotheses were tested:

- i. The old generation banks in Nigeria have not significantly complied with the regulatory requirements on the composition of audit committees.
- ii. There is no significant relationship between audit committee activity and the proportion of non-executive directors on the board of Nigerian banks.
- iii. There is no significant relationship between managerial ownership and audit committee activity in Nigerian banks.
- iv. There are no significant relationships between substantial outside shareholding and audit committee activity in Nigerian banks.
- v. There is no significant relationship between audit committee activity and CEO duality in Nigerian banks.
- vi. There is no significant relationship between audit committee activity and committee expertise in Nigerian banks.
- vii. There is no significant relationship between audit committee activity and profitability of Nigerian banks.
- viii. There is no significant relationship between audit committee monitoring and the recent distress of some banks in Nigeria.

1.7 Scope and Limitations

The study was limited to commercial banks operating in Nigeria whether quoted on the Nigerian Stock Exchange (NSE) or not. This was to accord with the CBN's Code of Corporate Governance 2006, which made no distinction between quoted and unquoted banks in the application of the code. The operations of these banks cover the 36 states of the Federal Republic of Nigerian, as well as the Federal Capital Territory Abuja. Lagos, being the hub of economic activities in Nigeria offered an attractive location for the study. The reason is that the Head Offices of most of the banks are located in Lagos.

As a result of this, the bulk of the primary data was generated in Lagos. The secondary data used were also limited to 2 years (2009 – 2010) annual reports. The data covering this period is believed to be sufficient in view of the fact that it covered the period of the greatest depression in the Nigerian banking sector (i.e. 2009), as well the period when the banks were believed to have fairly stabilized. This thinking was in accord with the CBN's Financial Stability Report, (2010) which asserted that the world economy was hit by an unprecedented financial and economic Meltdown of 2007 – 2009, tipped into recession by the subprime crisis in the US in August 2007. The meltdown led to the collapse of many world renowned financial institutions and resulted in bankruptcy of a nation. In Nigeria, the economy faltered and the banking system experienced a crisis in 2009, triggered by global events.

Data gathering in a developing country such as Nigeria can pose serious challenges, especially on the part of the respondents who are usually nonchalant in their attitude towards responding to questionnaire. Getting information from closely held banks that are not quoted on the NSE was also a challenge, especially in getting copies of the Annual Reports and Accounts.

The study did not examine the relationship between audit committee and earnings management in Nigerian banks, which is also an aspect of corporate governance.

II. Literature Review

2.1 Overview of Audit Committee

The audit committee is one of the Board of Directors' committees whose job is clearly one of oversight and monitoring of the financial reporting process (Blue Ribbon Committee, 1999). In Nigeria, The Companies and Allied Matters Act (CAMA) 2004, section 359(6), lists the objectives and functions of the Audit Committee as:

- a) Ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices;
- b) Review the scope and planning of audit requirements;
- c) Review the findings on management matters in conjunction with the external auditor and departmental responses thereon;
- d) Keep under review the effectiveness of the company's system of accounting and internal control;
- e) Make recommendations to the Board in regard to the appointment, removal and remuneration of external auditors of the company; and
- f) Authorise the internal auditor to carry out investigations into any activities of the company which may be of interest or concern to the committee.

From the foregoing, the audit committee can be seen as the centre of information collation and reporting process of a company.

2.2 Audit Committee and Corporate Governance

The agency theory appears to be a major driving force in most corporate governance studies. Effective corporate governance has also been identified to be critical to all economic transactions especially in emerging and transition economies (Dharwardkar *et al.*, 2000). When there is a separation of ownership from control of a business enterprise, as in the limited liability company, there is usually a tendency for the managers of these companies to engage in fraudulent financial reporting to protect their interest at the detriment of the interest of users of financial statements (Dabor, & Adeyemi, 2009). In Nigeria, all deposit money banks are limited liability companies. As such, the separation of ownership from management in a typical Nigerian bank necessitates a Principal-Agency relationship (Kama, & Chuku, 2009). This appears to be the compelling reason why the audit committee seems to have been caught in a cross-fire of the ever growing debate to resolve the problems created by the principal-agency relationship in companies.

2.3 Determinants of Audit Committee Activity and Effectiveness

A very important dimension to the study of audit committee is investigating their effectiveness, since the formation or mere presence of an audit committee, may not be equal to effective discharge of its oversight responsibilities (Sommer, 1991).

Several reasons may have been responsible for the scanty studies on audit committees' effectiveness. This includes the difficulty in operationalizing or measuring effectiveness against the backdrop of very many meanings construed for the word in different fields of endeavour. Cameron, (1986) notes that there is a distinction between effectiveness and factors associated with effectiveness. Previous studies such as Cameron, (1986); Collier, and Gregory, (1996); and Spira, (2002), acknowledged the difficulty in totally capturing the comprehensive meaning of the term 'audit committee effectiveness'.

However, Mautz, & Neumann, (1977) appears to be one of the earliest documented studies into audit committee effectiveness. This study set out to answer the following questions: Why do businessmen find corporate audit committees useful while others find little good to report about their own experience of them? What is there about such committee that causes such strong differences of opinion? What are the major characteristics and patterns of operation of audit committees? What are their leading advantages and disadvantages from the standpoint of directors, operating executives and independent CPAs? Does experience show that an audit committee can make a valuable contribution to the management and if so, under what conditions?

Mautz, & Neumann, (1977) concluded that corporate audit committee can make substantial contribution to corporate governance, but it will do so only when it is properly constituted and competently staffed, and when it exists within a corporate environment that encourages rather than discourage its activities. But despite the extent and ambitiousness of this study, it has been criticized as flawed in its approach and methodology (Adelopo, 2010). Similarly, Kalbers, & Forgarty, (1993) equally criticise the study for failing to operationalize effectiveness in the light of the audit committee but rather suggest a general definition of effectiveness as it relates to audit committees. Furthermore, the study failed to test any hypothesis, thus limiting its usefulness and contribution to knowledge about audit committee effectiveness. Kalbers, & Fogarty (1993), have equally observed this particular weakness in a number of other studies on audit committees.

From the review of the literature, it can be observed that there are few studies on Audit Committee Activity and their major focus have been on the effectiveness of the committee. Incidentally, measuring effectiveness has also been identified as a major challenge because it does not have a precise definition. It is to be noted that most of the studies seem to agree that the most suitable measure of the Audit committee effectiveness is the frequency of its meetings. Collier, and Gregory, (1999) define audit committee activity to mean the diligence with which the committee carries out its work. Essentially, they used the frequency of audit committee meetings to stand proxy for committee activity and examined the relationship between the frequency of audit committee meetings and other variables which were the explanatory variables.

The agency theory has provided the theoretical framework for this study while other corporate governance variables have been identified to include board size, proportion of non-executive directors on the board, number of board meetings, ownership structure, audit committee expertise, audit committee composition, audit quality and board performance.

III. Research Methodology

3.1 Research Design

This study used both ex-post facto and survey research designs. The aim of combining the two research designs was to ensure that a fairly robust and reliable analysis was carried out. For the primary data, a questionnaire was designed based on the research questions. The questionnaire was aimed at eliciting responses from respondents which enabled the researcher to test the hypotheses already stated. Secondary data was also collected from the Annual Reports and Accounts of the banks used as sample. The data generated from the secondary source was tested using multiple regression analysis. The primary data was also tested using descriptive statistics.

3.2 Study Population

There were 24 deposit money banks engaged in commercial banking in Nigeria as at December 31, 2010. These 24 banks made up the population for this study. The intention of the researcher was to use data that could help explain the distress in the banking sector during the years 2009 and 2010. The population has some common attributes including universal banking status, common year end and common currency. The year end for all the banks in Nigeria is 31st December.

3.3 Study Sample and Sampling Technique

As already stated, the population for this study was the 24 deposit money banks in Nigeria as at December 31, 2010. The population was categorized into 11 old generation and 13 new generation banks. From the population, a sample size of 18 banks was used (that is, 75% of the population). Since the old and new generation of banks were almost equal in size, a sample size of 9 was drawn from each category by random sampling. The aim was to eliminate bias in the choice of the respondents or sites to study (Saliu, & Oyebanji, 2004). The method also afforded every member of the population an equal chance of being selected. The two categories were first arranged serially using the size of their total assets which was obtained from the 2010 Annual Report and Accounts of each bank. Thus the banks' total assets were arranged in descending order of magnitude (from the largest value to the smallest). Then any 2 digits with a number less than or equal to 11 was circled on the table of random numbers to select 9 banks from the old generation category, while any 2 digits with a number less than or equal to 13 was used to select 9 banks from the new generation banks. The 18 banks selected in this process formed the sample for the study.

3.4 Data Collection

The study made use of both primary and secondary data. The aim was to ensure that a fairly robust and reliable analysis was carried out.

3.4.1 Primary Data Collection

This method of data collection was chosen to survey how respondents perceived the relationship between audit committee and other corporate governance variables in Nigerian banks. This offered the following advantages:

- i) The researcher gathered direct information from the respondents. The questions had been structured in such a way that the respondents could easily understand them.
- ii) In view of the fact that the questionnaire items were majorly structured, they were easy to manage when compared with unstructured questions.

To enhance the process of distribution and collection of completed questionnaire, four research assistants were engaged. The assistants who are accounting graduates were given some basic orientation on the study to enable them follow up effectively with the collection of distributed questionnaire. Electronic and hard copies of the questionnaire were used where appropriate.

A total of 240 copies of the questionnaire were distributed as follows: Bank External Auditors – 50 copies; Bank Internal Auditors – 50 copies; Accounting Practitioners – 50 copies; Non-Internal Audit Bankers – 50 copies; Accounting Educators – 40 copies. These categories of respondents were used because of the belief that they possess the necessary knowledge to make informed responses on the questions asked.

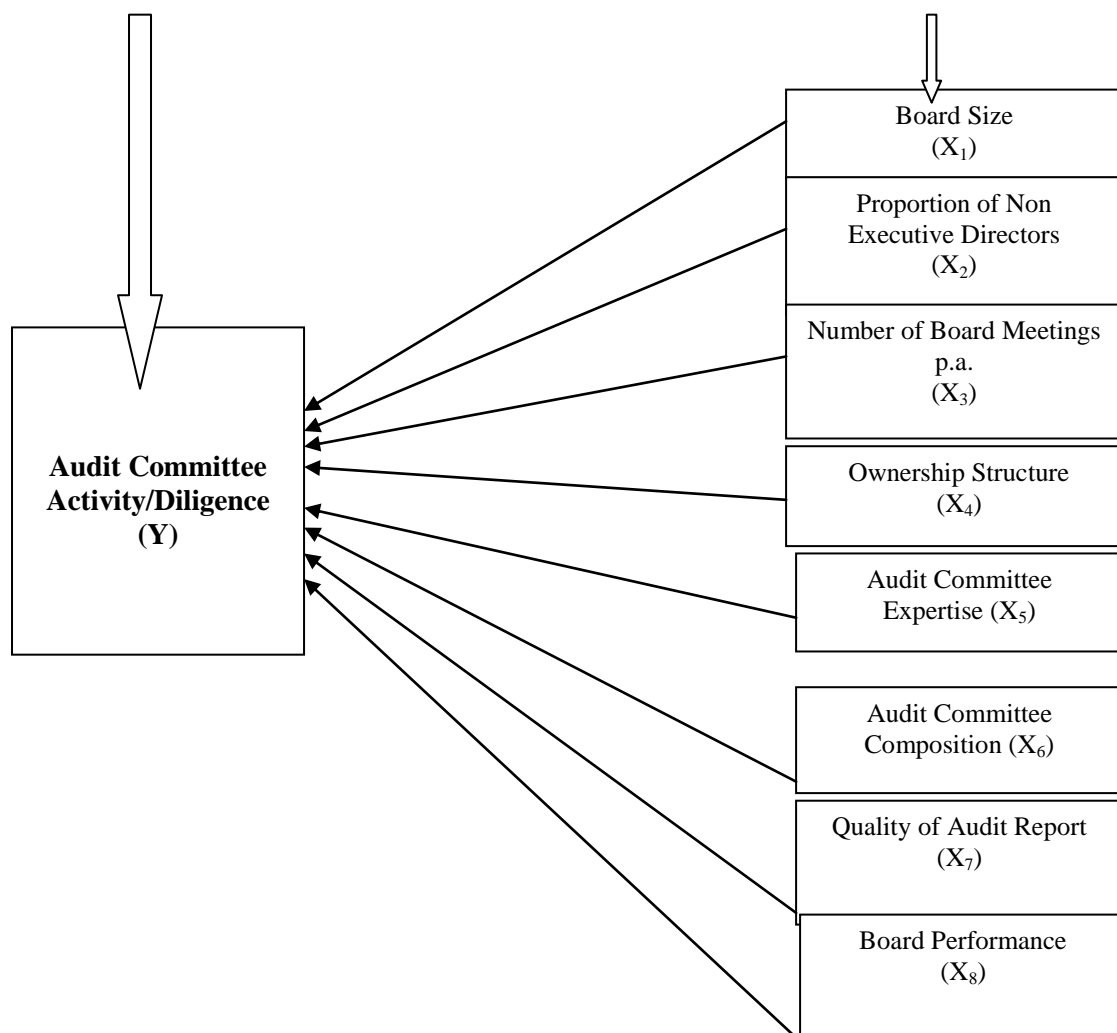
3.4.2 Secondary Data Collection

The secondary data for the study were both quantitative and qualitative information obtained from the Annual Reports and Accounts of the banks used as sample. The annual reports of 13 out of the 18 banks used as sample were downloaded from the website of such banks while those of the remaining 5 were obtained from the Registrars of the related banks. This method of data gathering was considered cost efficient and also made data gathering faster. The researcher relied on the data collected through the secondary sources to provide reasonable understanding into the relationship between audit committee and other corporate governance variables in Nigerian banks.

3.5 Dependent and Independent Variables for the Study

The research variables identified for this study are the corporate governance mechanisms including Audit Committee Activity, Board Size, Proportion of Non-Executive Directors on the Board, Number of meetings held by the Directors in a year, Ownership Structure in terms of Management holding more than 10% of the bank’s share capital (as specified by CBN Code of Corporate Governance, 2006, Presence of financial experts on the audit Committee, Composition of Audit Committee, Audit Quality and Board Performance. Figure 1.1 below is an attempt to separate the variables into dependent and independent components.

Figure 1.1: Separation of Research Variables into Dependent and Independent Components.



Source: Researcher’s Initiative

Figure 1.1 above shows Audit Committee Activity/Diligence selected as the dependent variable in a corporate governance structure, for the purposes of this study. The essence was to measure the extent to which other corporate governance variables influence the effectiveness of the audit committee. The variables identified as independent variables included Board Size, Proportion of Non-Executive Directors on the Board, Number of Board Meetings per year, Ownership Structure, Audit Committee Expertise, Audit Committee Composition, Audit Quality and Board Performance.

The relationship between Audit committee Activity and the other variables identified could be represented as:

$$ACACT = f(BOSIZE, NONEXEC, BOARDMET, OWNSTRUC, ACEXP, ACCOMP, AUDR, BOPERF) \dots(1)$$

Where
ACACT = Audit Committee Activity
BOSIZE = Board Size
NONEXEC = Proportion of Non-Executive Directors on the Board
BOARDMET = Board Meetings
OWNSTRUC = Ownership Structure
ACEXP = Audit Committee Expertise
ACCOMP = Audit Committee Composition (Independence)
AUDR = Audit Quality
BOPERF = Board Performance

However, we know that there may be other governance variables that could also influence the monitoring activity of the audit committee. Our econometric model which accounts for both the observed and unobserved variables in the relationship is thus stated as follows:

$$ACACT = \beta_0 + \beta_1 BOSIZE + \beta_2 NONEXEC + \beta_3 BOARDMET + \beta_4 OWNSTRUC + \beta_5 ACEXP + \beta_6 ACCOMP + \beta_7 AUDR + \beta_8 BOPERF + \varepsilon \dots\dots\dots(2)$$

where $\beta_0, \beta_1, \dots, \beta_8$ are the parameters of the econometric model and ε represents all the other unobserved independent corporate governance variables or disturbance term.

Definition of the Variables

The variables above are defined in table 1.1 below:

Table 1.1 Definition of Variables

Variables	Definition
<i>ACACT</i>	Audit Committee activity, measured as the frequency of Audit Committee meetings.
<i>BOSIZE</i>	Defines the number of directors on the board (both Executive and Non-Executive Directors).
<i>NONEXEC</i>	Defined as the proportion of the Non-Executive Directors to total number of directors on the board.
<i>BOARDMET</i>	Defines the number of board meetings held in a year.
<i>OWNSTRUC</i>	Defines the number of shareholders holding more than a 10% shareholding in the company (disclosure is statutorily required by the CBN code).
<i>ACEXP</i>	A binary variable measuring financial expertise. Equal to 1 if at least one member of the audit committee is a financial expert and 0 if otherwise.
<i>ACCOMP</i>	Binary variable that measured the level of independence of the audit committee through its composition. Equal to 1 if the three directors on the audit committee are Non-Executive Directors, otherwise 0.
<i>AUDR</i>	Auditors report coded 1 if not qualified and 0 if qualified
<i>BOPERF</i>	Board performance measured by the Naira value of Profit Before Tax.

The dichotomous scale of 0 – 1 was used to measure some of the data obtained. For example, on the composition of the audit committee in the banks, their level of independence from the executive management manipulation was measured and the figure (1) was used for appropriateness (i.e. properly composed as specified in CBN 2006 Code, that the three directors representing the Board should be Non-Executive), and (0) for inappropriateness or lack of independence. In other words, the value of 1 was assigned if there are 3 non-executive directors on the audit committee, otherwise 0 was assigned. This procedure is similar to the technique used by Dabor, & Adeyemi, (2009); Hamid, (2009).

IV. Data Analysis And Presentation Of Results

4.1 Correlation Analysis for Independent Variables

Tables 2.1A and 2.1B below show the pairwise correlation and the Variance Inflation Factors (VIF) of the explanatory variables. It showed that AUDR and OPBT are highly correlated (0.838) and this may affect the efficiency of the results from the regression. The Variance Inflation Factors were 3.912 and 3.963 respectively, much below the threshold of 10 suggested by Hair et al, (1998) for evidence of severe multi-collinearity. This suggests that multi-collinearity is not likely to adversely affect the regression results.

Table 2.1A: Pairwise Correlation Between all the Explanatory Variables (sig at 5%)

VARIABLES	BOSIZE	NONEXEC	BOARDMET	OWNSTRUC	ACEXP	ACCOMP	AUDR	OPBT
BOSIZE	1.000							
NONEXEC	-0.031	1.000						
BOARDMET	0.362	0.000	1.000					
OWNSTRUC	-0.100	0.112	-0.068	1.000				
ACEXP	0.651	0.250	-0.329	-0.068	1.000			
ACCOMP	0.267	0.052	-0.191	-0.578	0.542	1.000		
AUDR	-0.067	-0.293	-0.035	0.176	-0.108	-0.200	1.000	
OPBT	-0.015	-0.313	-0.118	0.117	-0.035	0.014	0.838	1.000

Source: SPSS Output

Table 2.1B: Variance Inflation Factor (VIF) of the Explanatory Variables.

VARIABLES	BOSIZE	NONEXEC	BOARDMET	OWNSTRUC	ACEXP	ACCOMP	AUDR	OPBT
VIF	2.254	1.328	1.273	1.888	3.196	2.956	3.912	3.963

Source: SPSS Output

4.2 Descriptive Statistics of the Variables in the Study

The descriptive statistics in Tables 2.2 and 2.3 below show the dependent and independent variables. The dependent variable, AACT has mean and standard deviation of 4.33 and 1.372 respectively. The independent variable, BOSIZE has mean and (standard deviation) as 14.00 (2.301) respectively. Similarly, the mean and standard deviation of other independent variables are NONEXEC, 0.6189 (0.04886); BOARDMET, 5.94 (1.626); OWNSTRUC, 0.72 (1.018); ACEXP, 0.94 (0.236); ACCOMP, 0.83; (0.383); AUDR, 0.83 (0.383) and OPBT, -2.965 (36.7177) respectively. The table also indicates the minimum and maximum values for the dependent and independent variables.

Table 2.2: Descriptive Statistics for the Dependent Variable

Variable Description	Mean	Standard Deviation	Minimum	Maximum	N
AACT	4.33	1.372	2	8	18

Table 2.3: Descriptive Statistics for the Independent Variables

Variable Description	Mean	Standard Deviation	Minimum	Maximum	N
BOSIZE	14.00	2.301	8	20	18
NONEXEC	0.6189	0.048	0.54	0.69	18
BOARDMET	5.94	1.626	4	10	18
OWNSTRUC	0.72	1.018	0	4	18
ACEXP	0.94	0.236	0	1	18
ACCOMP	0.83	0.383	0	1	18
AUDR	0.83	0.383	0	1	18
OPBT	-2.965	36.717	-121.66	39.04	18

The regression was run with the number of Audit Committee meetings as the dependent variable (Collier and Gregory, 1996; Song and Windram, 2004). This is based on the view that the frequency of meetings is one of few and reliable observable measures of committee activity. Although it is not a perfect measure of all the dimensions of the committees' activity, it gives a sense of the commitments and responsibility of the committee to its functions (Collier and Gregory, 1996).

4.3 Multi-collinearity of the Research Variables

The researcher was concerned over the high correlation (i.e. 0.838) between audit report (AUDR) and operating profit before tax (OPBT). Thus further analyses were undertaken. One of the ways to handle multi-collinearity is to identify variables that are likely to be highly correlated. One of these variables could then be removed from the model allowing an appreciation of its impact on other variables and on the model as a whole (Gujarati, 2006). In table 2.4 below, the researcher checked for the effect of correcting for high correlation between these variables. Three models were used. Model 1 represents the regression of all the variables without AUDR. In Model 2, the regression was done without OPBT, while in Model 3 the regression was done using both AUDR and OPBT to better understand their effect on the regression results.

The results were very similar in each case except OPBT, whose correlation coefficient with the dependent variable AACT (-0.001) is considered insignificant and so can be eliminated from the regression analysis. The most appropriate model to use out of these three models is the one with the highest explanatory power (i.e. highest Adj. R²). The model with the highest explanatory power is Model 2, i.e. the regression of all the variables without operating profit before tax (OPBT).

Table 2.4: Multi-collinearity Checks.

Variable	Model 1 Coeff	p-value	Model 2 Coeff	p-value	Model 3 Coeff	p-value
Constant	-8.628	0.058	-8.020	0.089	-7.911	0.115
BOSIZE	0.135	0.422	0.130	0.436	0.127	0.472
NONEXEC	0.178	0.012	0.175	0.013	0.177	0.018
BOARDMET	0.411	0.138	0.411	0.035	0.416	0.046
OWNSTRUC	0.333	0.343	0.327	0.341	0.317	0.310
ACEXP	-4.443	0.039	-4.363	0.041	-4.333	0.055
ACCOMP	1.844	0.113	1.743	0.131	1.691	0.180
AUDR	-	-	-0.396	0.585	-0.571	0.680
OPBT	-0.003	0.714	-	-	-0.002	0.879
F	2.911		2.986		2.361	
R	0.819		0.822		0.823	
R ²	0.671		0.676		0.677	
Adj. R ²	0.440		0.450		0.390	

4.4 Hypotheses Testing of Secondary Data

Table 2.5 below presents the results of the regression using OLS in multiple regressions.

Table 2.5: OLS Results with Frequency of Audit Committee Meetings as Dependent Variable.

Variable	Coefficient	R. Std Error	t-stat	p-values
Constant	-8.020	4.261	-1.882	0.089
BOSIZE	0.130	0.160	1.812	0.436
NONEXEC	0.175	0.058	3.036	0.013
BOARDMET	0.411	0.169	2.434	0.035
OWNSTRUC	0.327	0.327	0.999	0.341
ACEXP	-4.363	1.863	-2.342	0.041
ACCOMP	1.743	1.060	1.645	0.131
AUDR	-0.396	0.702	-0.564	0.585

As shown in table 2.5 above, ACEXP and AUDR are negatively related to AACT. NONEXEC, BOARDMET, OWNSTRUC are positively related with AACT. BOSIZE and ACCOMP have no linear relationship with the dependent variable (AACT).

NONEXEC shows a positive relationship with the dependent variable, AACT. The relationship was found to be significant as t-calculated 3.036 is greater than the t-tabulated value of 1.734 at 5% level of significance.

OWNSTRUC showed a weak positive relationship with the dependent variable, AACT. The relationship is not significant as t-calculated 0.999 is less than the t-tabulated value of 1.734 at 5% level of significance.

BOARDMET also showed a positive significant relationship with the dependent variable, AACT as the t-calculated 2.434 is greater than the t-tabulated value of 1.734 at 5% level of significance.

Audit Quality (AUDR) which was measured by the use of a dummy variable coded 1 if the report is qualified and 0 if the report is not qualified was negatively related to AACT in an insignificant manner as the t-calculated of -0.564 is less than the t-tabulated value of 1.734 at 5% significance level.

That is to say, the more audit committee activity, the less the tendency for audit reports to be qualified.

Table 2.5 also showed Audit Committee Expertise (ACEXP) which was measured by the use of another dummy variable coded 1 for financial expertise and 0 for non-financial expertise was also negatively related with AACT. The relationship was insignificant as the t-calculated of -2.342 is less than the t-tabulated value of 1.734 at 5% significance level.

4.5 OLS Regression Result

There were 24 Commercial Banks in Nigeria as at 31st December, 2010 that formed the population for this study. It was from this 24 that 18 banks were selected. The estimated regression equation describing the relationship between Audit committee Activity and other corporate governance variables is of the form stated below:

$$\text{AACT} = -8.020 + 0.130 \text{ BOSIZE} + 0.175 \text{ NONEXEC} + 0.411 \text{ BOARDMET} + 0.327 \text{ OWNSTRUC} - 4.363 \text{ ACEXP}$$

$$+ 1.743 \text{ ACCOMP} - 0.396 \text{ AUDR}$$

$$R^2 = 0.676;$$

$$\text{Adjusted } R^2 = 0.450$$

$$F(7, 10) = 2.986;$$

$$\text{DW-Statistic} = 2.378 \text{ and } n = 18.$$

The R^2 of 0.676 implies that about 68% variation in AACT is explained by the independent variables, namely, BOSIZE, NONEXEC, BOARDMET, OWNSTRUC, ACEXP and ACCOMP. The adjusted R^2 of 45% shows that the model is a good fit, though the predictive power is not very high. The F-statistic, which measures existence of linear relationship between the dependent variable and the independent variables, revealed a significant statistical relationship as the F-calculated of 2.986 is greater than F-tabulated of 2.41 at 10% level of significance.

V. Conclusion

The aim of the study was to establish the type of relationship that existed between the Audit Committee activity as a tool of Corporate Governance and other Corporate Governance variables in Nigerian banks. The study found that the banks had significantly complied with the Central Bank of Nigeria (CBN) Code of Corporate Governance, 2006, regarding the composition of audit committees. There was also evidence that there is a significant positive relationship between audit committee activity and the proportion of non-executive directors on the board. This was found to be consistent with previous studies. However, audit committee expertise which is seen to be important for the effective discharge of the audit committee assignment, was negatively correlated with audit committee activity in the regression analysis. This may suggest that the more the committee members possess financial literacy and expertise, the less the number of times they need to meet for their assignment. The study also found that low monitoring activity of the audit committee significantly contributed to the distress of some banks in Nigeria between 2009 and 2010.

VI. Recommendations

The study recommends that the practice of ensuring that non-executive directors are appointed to the audit committee in line with CBN code 2006, is sustained and improved upon. This would help to restore investors' confidence in Nigerian banking system. There is also the need to harmonize some sections of the Securities and Exchange Commission (SEC) Code of Corporate Governance 2011, with those of CBN code 2006. For instance, while section 5.3.6 of the CBN code 2006, requires that at least two (2) non-executive board members should be independent directors, the SEC code 2011 requires at least one (1) independent director. Similarly, the CBN code 2006 should be revised to provide for whistle blowing, as well as protection and reward for whistle blowers in Nigerian banks. The current CBN code 2006, has no provision for whistle blowers. Incorporation of this provision is expected to enhance audit committee activity in particular and corporate governance in general.

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APPENDIX 1A

Summary of Responses by Respondents

Note: SA = Strongly Agree; A = Agree; U = Undecided; D = Disagree; SD = Strongly Disagree.

Questionnaire Item	SA	A	U	D	SD	TOTAL
1	144	65	2	0	0	211
2	112	82	5	8	4	211
3	46	103	49	13	0	211
4	7	51	67	65	21	211
5	84	65	32	21	9	211
6	105	97	5	4	0	211
7	131	59	8	13	0	211
8	54	131	9	13	4	211
9	135	7	0	4	2	211
10	50	97	22	33	9	211
11	38	119	21	16	17	211
12	106	86	13	6	0	211
13	46	93	33	26	13	211
14	54	108	21	17	11	211
15	114	76	0	21	0	211
16	123	84	0	4	0	211
17	139	68	4	0	0	211
18	0	38	25	85	63	211
19	51	102	33	13	12	211
20	42	102	13	42	12	211
21	63	110	31	7	0	211
22	Suggestions from respondents					

Source: Administered Questionnaire.

Joseph Ifeanyi Ugwulali. " The Relationship between Audit Committee and Other Corporate Governance Variables in Nigerian Banks". *IOSR Journal of Business and Management (IOSR-JBM)*, Vol. 21, No. 12, 2019, pp 14-24