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Audit Committee Characteristics and the Quality of Financial Reports of Listed Financial Institutions in Nigeria

Adeleke Danjuma Bolaji[1]
Department of Accounting, Nile University of Nigeria,

Abstract
This study examined the effect of audit committee characteristics, namely; audit committee components, background profile of audit committee and audit committee statutory checklists on the quality of financial report of listed financial institutions in Nigeria. The study adopted the correlational research design. The population size was fifty seven (57) financial institutions listed on the Nigerian Stock Exchange as at December 2017. A sample size of forty (40) companies was selected using purposive sampling technique. Data was collected through secondary sources from annual report of selected companies and Nigerian Stock Exchange factbook for the years 2008 to 2017. Data collected was analyzed through descriptive statistics, panel data analysis and pooled ordinary least square regression. The findings of this study show that audit committee size and diversity have significant effects on the quality of financial report while audit committee meeting has no significant effect on the quality of financial report. Secondly it shows that experience and area of specialization have significant effect on the quality of financial report while educational qualification has no significant effect on the quality of financial report. Lastly it shows that financial expertise has a significant effect on the quality of financial report while audit committee independence and attendance of meetings have no significant effect on the quality of financial report. The study therefore, concludes that audit committee components and background profile affect the quality of financial statement while audit committee statutory checklists do not affect the quality of financial statement. It recommended that the size of the audit committee, diversity among the committee and the experience, area of specialization, expertise among the audit committee should be taken into consideration because it can positively affect the quality of financial statement.

Key Words:

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I. Introduction

The quality of financial report has been a subject of debate among regulatory bodies and stakeholders especially after the collapse of major companies (Hassan & Bello, 2013). Series of corporate scandals around the world eroded the trust in the financial statement and placed a doubt in the mind of investors, which resulted to the loss of confidence by investors worldwide (Fodio, Ibikunle& Oba, 2013). The cases of Enron, WorldCom,and Xeronx in developed nations; Maxwell in United States of America and Transmilein Malaysia. These crises have forced a re-think on how to curb the menace on the part of regulators and governments, throughout the developed world and other developing countries (Fichtner, 2010).Audit committee is one of the mechanisms introduced by regulators to ensure reliable and high-quality financial reporting(Umobong&Ibanichuka, 2017).

Iyoha (2012) documented that there are concerns about financial reporting quality among Nigerian firms. The concerns regarding the quality of financial reporting, have raised questions regarding the effectiveness of monitoring mechanisms of companies like the audit committee. This assertion is linked torecent cases of corporate financial frauds, accounting improprieties, scandals and failures in Nigerian companies such as Cadbury Nigerian Plc in 2016, Afribank Nigeria plc in 2009 and Intercontinental Bank Plc in 2009.Ajibolade (2008) stated that, the Lever Brothers Plc case in Nigeria aroused the attention of investors because of losses in their investments. Financial report should be reliable, comparable, understandable, flexible and also should consider time factor. All these can only be achieved when there is an efficient and effective audit committee because they are charged with the responsibility of producing reliable and adequate information about the financial statement. However, Eyenubo, Mohammed and Mohammad (2017) stated that in order to encourage good corporate governance and improve the quality of financial reporting, audit committee is an essential part of corporate governance structure and also one of the compulsory committees of the board of directors that is established to support to the board by offering objective advice on issues concerning risk, control and governance of the organization.

Audit committee improves financial reporting quality through enhancing the reliability of financial reports (Hussaini, Noor &Hasnah, 2018)**.** Studies of Baxter and Cotter (2009); Davidson, Godwin-Stewart, and Kent (2005); Yang and Krishnan (2005); Abbott, Parker, and Peters (2004) and Labib (2011) confirmed that financial reporting quality is improved with the formation of audit committees.The oversight function of audit committee has a great impact in the quality of financial report. Mal, Babangida andShadrach (2015) found that audit committee meetings have a positive effect on the quality of the financial reports. Noland, Thomas & Flesher (2004) stated that there is huge importance of the presence of experienced member among the audit committee in order to achieve quality of financial report.

Previous studies have proven that introduction of audit committee into companies improves the quality of financial report, despite these, there are still issues with the quality of financial report. Especially with the increased rate of fraud, misappropriations and manipulations. There is still need therefore toexamine the audit committeecomponents, assess the background profile of the audit committee membersandthe audit committee statutory checklists and also to determine if these factors can further improve the quality of financial report.Hence this study will examine the audit committee components in terms of (audit committee frequency of meetings, audit committee diversity and audit committee size), access the background profile of audit committee members in terms of (educational qualification, experiencesand area of specialization), and ascertain the audit committee statutory checklists in terms of (financial expertise, independence and attendance of meetings) while the quality of financial report will be measured based on value relevance due to mixed results from prior studies.

Statement of the Problems

The crises that bedeviled the financial sector post publication of audited financial reports have called for more concerns. The financial reporting quality relies on the effectiveness of audit committee. The audit committee has faced some challenges in the past years that has caused lack of trust with the financial report. Thus, effective audit committee characteristics are fundamental determinants of high-quality financial reporting (Boonlert-U-Thai &Kuntisook, 2009;Dangana& Yancy, 2013).

Wiralestari andDewi (2015)studied the effectiveness of audit committee towards financial reporting quality of non-financial companies listed in Indonesia Stock Exchange and found that the audit committee had significant impact on financial reporting quality. Muhammad,Ayoiband Noor (2016)studied audit committee characteristics and financial reporting quality of non-financial firms listed in Nigeria and found that the audit committee independence, financial expertise, share ownership as proxy for audit committee characteristics significantly affect the quality of financial reporting. Oji and Ofoegbu (2017) studied the effect of audit committee qualities on financial reporting of listed companies in Nigeria and found that audit committee independence, audit committee members' qualification and audit committee monitoring function have a significant and positive effect on financial reporting of listed firms in Nigeria.

Furthermore, Mwangi (2018) studied the effect of audit committee characteristics on quality of financial reporting among non-commercial state corporations in Kenya and found that audit committee independence, audit committee diversity, audit committee financial competence and audit committee meetings had statistically significant relationship with the quality of financial reporting. Ormin, Tutaand Shadrach (2015) studied audit committee characteristics and financial reporting quality of listed deposit money banks in Nigeria and found that audit committee meeting frequency and attendance has positive and significant influence on financial reporting quality of listed deposit money banks in Nigeria. Rabab'ah, Al-Sir andAlzoubi (2017)studied the impact of the audit committees' properties on the quality of the information in the financial reports of Saudi commercial banks and found that the availability of the audit committees' properties affect the quality of the financial reports in the Saudi banking. UmobongandIbanichuka (2017) studied audit committee attributes and financial reporting quality of food and beverage firms in Nigeria and confirmed that increase in audit committee independence, financial expertise of members, firm age and frequency of meetings increases financial reporting quality.

However, some studies oppose the above proposition, that there is no effect of audit committee characteristics on the quality of financial report,Jerubet, Winrose and Tenai(2017)studied the effects of audit committee characteristics on quality of financial reporting among firms listed in Nairobi Securities Exchange, Kenya and showed that audit committee independence had a negative and significant effect on the quality of financial reporting. Temple, Ofurum and Egbe (2016)studied audit committee characteristics and quality of financial reporting in quoted Nigerian banks and found that audit committee independence has no significant effect on earnings management in quoted Nigerian banks.Onyabe, Okpanachi, Nyorand Yahaya (2018)studied the effect of audit committee tenure on financial reporting quality of listed deposit money banks in Nigeria and revealed that audit committee tenure has a negative and insignificant effect on financial reporting quality.

Previous studies explored various audit committee characteristics with different variables but the justification for the relationship between studied variables and the quality of financial report is inconclusive. This study is therefore conducted to perform an in depth study into the effects of audit committee components, background profile of audit committee members and statutory checklists on the quality of financial statements of listed financial institutions in Nigeria. This is done to lend a voice to existing literatures and to further establish and improve existing findings.

Objectives of the study

The broad objective of this study is to determine the effect of audit committee characteristics on the quality of financial reports in financial listed institutions in Nigeria. The following specific objectives are to; i. examine the effect of audit committee components on the quality of financial statements of listed financial institutions in Nigeria. ii. assess the effect of the background profile of audit committee members on the quality of financial statements of listed financial institutions in Nigeria. iii. ascertain the effect of statutory checklists on the quality of financial statements of listed financial institutions in Nigeria.

II. Literature Of Review

2,1 Conceptual Review

This talks about the concepts of audit committee, quality of financial report, audit committee characteristics, audit committee components, background profile of audit committee as well as statutory checklists of audit committee.

2.1.1 Concept of Audit Committee and Financial Report

Audit Committee

The earliest trace of any form of direct taxation in Nigeria even before the British administration is The wide adoption of the formation of audit committees around the world suggests the importance of an audit committee as a governance mechanism (Saidin, 2007). It is a committee established by the board of directors to oversee the processes involved in accounting and auditing of company financials and it consists of three shareholders' representatives and three independent non-executive directors as spelt out in Nigeria's Company and Allied Matters Act (2020) with at least one qualifying as a financial expert (Sarbanes Oxley Act, 2002; Security and Exchange Commission Code, 2003). It also acts in a manner that will provide oversight roles over accounting policies and judgments, as well as the quality of the overall financial statements (Security and Exchange Commission Code (SEC), 2011). Kevin, 2009 also added that the audit committee plays a central role in the financial monitoring of a firm.

Audit committee can be described as a corporate governance mechanism (Li, 2010), an arm of the board of directors (Dhaliwal, Naiker&Navissi2008), saddled with responsibility of ensuring quality reporting by performing oversight functions of the activities of management and external auditors (Enofe, Mgbame&Enabosi2013) as well as help mitigate the agency problem between management and owners.The International Professional Practices Framework (IPPF, 2002) stateaudit committee as a standing committee of a company board that has the oversight function of financialreporting process, internal and external auditor's activities (Anderson &Dahle, 2009).

2.1.2 Quality of Financial Report

Financial reports are the product of the accounting system. Tang, Chen and Zhijun (2008) defined financial reporting quality as the degree to which financial statements provide information that is fair and authentic about the financial position and performance of an enterprise. Jonas and Blaurchet (2000) also stipulates that the quality of financial reporting is the complete and unambiguous information that is not designed to misinform users. Baxter and Cotter(2007), defines financial reporting quality as the precision with which financial reports convey information about the firm's operations, in particular its cash flows, in order to inform equity investors. Financial report must contain true, accurate and appropriate information for the purpose intended for in the right time Jarbou (2001)

2.1.3 Characteristics of Financial Report

Annual report contains financial information which are used by investors, shareholders, creditors and stakeholders which helps in making decisions. This report is prepared by the managers and subject to an audit by professionally qualified auditors who add to the credibility, reliability, relevance and acceptability of the information (Muhammad, Ayoib& Noor, 2016).

The following are the characteristics of financial report in terms of fundamental and enhancing qualitive characteristics underlying decision usefulness as defined by IASB, 2008; relevance and faithful representation, understandability, comparability, verifiability and timeliness.

Relevance simply means the impact of information in the financial report, to the various users and interested parties. It is also the capability of making a difference in the decisions made by users in their capacity as capital providers (IASB, 2008)

Faithful representation means how the condition of the business is reflected accurately. This is measured using neutrality, completeness, freedom from material error, and verifiability (IASB, 2008)

Understandability means the information should be presented so that a reader can easily comprehend it. That is, when the quality of information is meaningful to the users. This can be measured by transparency and clearness of the information presented in annual reports (Jonas & Blanchet, 2000; Courtis, 2005; IASB, 2006).

Comparability is the level of standardization of accounting information that allows the financial statements of multiple organizations to be compared to each other. This is measured by the consistency in use, the accounting policies and procedures from period to period within a company (Jonas & Blanchet, 2000; Beuselinck & Manigart, 2007; Cole, Branson & Breesch (2007).

Timeliness refers to the provision of information to users quickly for them to act. That is, having information available to decision makers before it loses its capacity to influence decisions and also the time it takes to reveal the information that is related to decision usefulness in general (IASB, 2008).

2.1.4 The Audit Committee Components and the Quality of Financial Report

This can be referred to the functioning among the audit committee in terms ofaudit committee frequency of meetings, audit committee size and audit committee diversity. Blue Ribbon Committee (BRC) specifically stated that audit committees should meet at least quarterly and this they argued shows the level of diligence expected from audit committees.Stewart and Munro (2007) using an experimental design, observed that respondents align to the perception that audit committee meeting; a proxy for the diligence and activity of the audit committee should be within two to six times in a year. Specifically, they believe that meeting just twice in a year is too infrequent to allow for effectiveness and meeting about six times in a year is too frequent and would be cost ineffective. Thus, they advocated for a midpoint of four times in a year.

Typically, audit committees have to meet three or four times a year (Huang&Thiruvadi, 2010; Matawee, 2013). The more frequent audit committees meet, the better the quality of financial reporting because they can monitor the management activities more promptly and effectively in the meeting (Ruzaidah&Takiah, 2004).For audit committees to undertake their activities properly, it is suggested that the committee may need to meet at least eight times a year to ensure adequate oversight of the organization's assurance processes (Hamdan, Mushtaha& Al-Sartaw, 2013). Bryan, Liv, and Tiras (2004) posited that audit committees that meet regularly improve the transparency and openness of reported earnings and therefore improve earnings quality. Zhang,Zhou and Zhou (2007) used the number of meetings to measure whether the frequency influences financial reporting quality and found a positive correlation.

By audit committee size, in the context of this study is described as the number of persons that make up the committee. Audit committee size refers to the number of audit committee members on the board (Hashim & Abdul Rahman, 2011).Regulatory bodies such as the Companies and Allied Matters Act 2020 as amended and the Security and Exchange Commission code of corporate governance of 2011 have specified the number of persons that should be on the audit committee board. Specifically, the Act stipulates that audit committees must be six (6) in number and should be made up of equal numbers of directors and shareholders representatives S359 (4). For a committee to function properly, it is expected to have adequate manpower hence, the size criteria. Several studies such as (Uwuigbe, Uwuigbe, Ebeguki, Jinadu&Otekunrin 2016; Jensen 1993;Bedard, Chtourou&Courteau 2004; Yermack 1996) have examined the relationship between the size of audit committees and audit quality.

It is noted that this size criteria differs across countries. For example, while in Nigeria, a specific number of six (6) is expected, in the United States, Lin, Li and Yang (2006)noted that the United States SEC specified a minimum of 4 members while in the United Kingdom, a minimum of three members is specified. Zaitul (2010) believed that the larger the audit committee, the more the diverse skills, knowledge and greater resources they have in fulfilling their duties. Anderson, Mansi, and Reeb (2004) stated that an increase in audit committee size enables members to distribute the workload and commit more time and resources to monitor management and detect fraudulent behavior.

2.3 The Background Profile of Audit Committee Members and the Quality of Financial Report

This is the background profile of the audit committee members, that is, in terms of; educational qualification, experiences and area of specialization. These roles and responsibilities require the members of the audit committee to have specific characteristics and background to effectively and efficiently perform their task. According to Vera-Muñoz (2005), an effective audit committee should have a qualified financially literate member and be highly independent in the process of decision making. The educational background and additional qualification in accounting and finance profession becomes an important characteristic that ensure audit committees performance (Yunus, 2011; Metawee, 2013). Knowledge in accounting and finance provides a good basis for audit committee members to examine and analyze financial information.

Also, in terms of educational qualification, there is no agreed definition of financial expertise so far, empirical research suggests a variety of measures to operationalize financial expertise. Krishnan (2005), using Security and Exchange Commission broad definition of financial expertise, reported that fraudulent firms have fewer financial experts on their audit committees. Similarly, Xie, Davidson and Dadalt (2003); Abbott, Parker, Peters and Raghunandan (2003); Abbott, Parker and Peters (2004) noted that the presence of financial expertise on the audit committee has a significant positive association with financial reporting quality measures. Yet, Carcello and Neale (2000); Zaman, HudaibandHaniffa (2011) did not report any benefit of such expertise. Baxter and Cotter (2009) also documented a significant negative association between the audit committee members with accounting qualification and earnings management, hence improving financial reporting quality recovered unlike the benefits-received theory where a balanced budget is implied.

2.3.1 The Audit Committee Statutory Checklists and the Quality of Financial Report

According to the definition, an audit committee member is deemed a financial expert if the member has: accounting expertise, that is, from work experience as a certified public accountant, auditor, chief financial officer, financial controller, or accounting officer; finance expertise, that is, from work experience as an investment banker, financial analyst, or any other financial management role; supervisory expertise, from supervising the preparation of financial statements.

The attributes of financial experts as defined by the Unites States Securities and Exchange Commission (SEC) are to be attained through education and experience as (a) public accountant or auditor, (b) a principal financial officer, controller or principal accounting officer of an issuer, or (c) from a position involving the performance of similar functions (Bedard & Gendron, 2010). This definition was later broadened to include CEO or president. Following comments received by the SEC that the characteristics to be considered as financial experts are too restrictive, hence firms may not able to find a qualified one (Yunos, 2011).Vafeas and Waegelein (2007) argued that governance expertise is important in maintaining audit quality and documented a positive and significant association between governance expertise and audit fee. They defined audit committee governance expertise as the audit committee members' experience of serving on another audit committee.

In Nigeria, the code of corporate governance issued by the CBN seeks particularly to ensure independence of audit committee by requiring that majority of the directors on the audit committee should be non-executive directors while CAMA (2020) in section 359 subsection 4 does so by banning members from being entitled to remuneration.DeFond, Hann and Hu (2005) noted that the market views the appointment of accounting financial experts (SEC definition) in a positive manner. Krishnan (2005) showed that accounting financial expertise are associated with less earnings management. Similarly, Krishnan and Visvanathan (2008) provided evidence of a strong positive association between accounting financial expertise and earnings quality. Baxter & Cotter (2009) documented a significant negative association between the audit committee accounting expertise variable (members with accounting qualification) and earnings management, hence improving financial reporting quality and also providing support for the Smith Report (2003) recommendations for the audit committee financial expert having a professional accounting qualification.

2.4 EMPIRICAL REVIEW

There are some previous studies with different argument on the audit committee characteristics and the quality of financial report, they are as follows; Al Shaer,Salamaand Toms(2017) studied audit committees and financial reporting quality in UK. The objective of the study was to examine the determinants of the volume of environmental disclosures and theirquality, with particular focus on the role of audit committees and the effects of the SmithReport recommendations for the UK Corporate Governance Code.Quantitative large sample analysis of UK FTSE350companies for the period 2007-2011 was used. The study found that firms with higher quality audit committees make higher quality disclosures. Larger firms with block shareholders have greater volume of disclosures, whilst audit committee quality does not increase disclosure volume. Findings were based on evidence from single countryand imply further international comparative research.

Baccouche,Hadriche and Omri (2013) conducted a study on the impact of audit committee multiple-directorships on earnings management in France. The study examined the relationship between Audit Committee Multiple-Directorships and earnings management. Precisely, investigated the effect of the multiple directorships held by audit committee directors on the level of earnings management oflisted French companies. The results suggested that the accumulation of several outside directorships by audit committee members may lead to a higher degree of earnings management, as measured by the magnitude of discretionary accruals. The investigation was achieved on a sample of 88 non financial French listed firms that belong to the SBF 120 index, for the financial year 2008.The study found that audit committee can't provide effective monitoring of earnings management when its members held many additional outside directorships..

Kiryanto (2014) analyzed the characteristics of audit committee on earnings quality in Jakarta. This research was designed to develop conceptual framework of association between of audit committee characteristics including size, independence, expertise and activity with earnings quality that approximated by earnings management, conservative accounting and earnings response coefficient.The population of the study is manufacturing companies listed on the Jakarta Stock Exchange (JSX) from 2004 to 2006 and purposive sampling was used to obtain representative samples in accordance with the specified criteria. The results showed significant evidence of a positive association between audit committee characteristics of size and independence and earning response coefficient and earnings management. The second set of results indicated that audit committee characteristics of expertise and activity not positive affect earning response coefficient and earnings management and accounting conservatism. The study further found significant evidence of a negative association between earnings management and earnings response coefficient. The last results showed that earnings management and accounting conservatism were not mediate of association between audit committee characteristics and earnings response coefficient.

Yuanto, Kwong, Themin and Jiwei (2016) conducted a study on audit committees and financial reporting quality in Singapore. The study examined three characteristics (independence, expertise, and overlapping membership) ofaudit committees and their impact on the financial reporting quality for Singapore listed companies. The study used cross-sectional regression analysis to test the impact of audit committee characteristics on financial reporting quality in Singapore. The main finding is that financial reporting quality will be higher if audit committees have mixed expertise in accounting, finance and/or supervisory. In addition, the study do not find evidence that incremental independence of audit committees enhance financial reporting quality because audit committees already consist of a majority of independent directors. Finally, the study failed to find any impact of overlapping membership on audit and remuneration committees on financial reporting quality..

Jerubet, Winroseand Tenai (2017) studied the effects of audit committee characteristics on quality of financial reporting among firms listed in Nairobi Securities Exchange, Kenya. The aim was to establish the effects of audit committee characteristics on quality of financial reporting among firms listed in Nairobi Securities Exchange, Kenya. The study used a sample of 46 firms, the findings indicated that audit committee size has a positive and significant effect on the quality of financial reporting. However, findings showed that audit committee independence had a negative and significant effect on the quality of financial reporting. The findings indicated that increase in audit committee size increases quality of financial reporting. This implies that an increase in the audit committee size enables the members to distribute the workload and dedicate more time and resources in monitoring.

Chigwena (2015) investigated the relationship between the audit committee characteristics and financial reporting quality in the state owned enterprises in the transport sector in Zimbabwe.The purpose of the research was to establish whether a relationship exists between audit committee characteristics and quality of financial reporting holding other factors constant. The research was quantitative in nature taking the form of survey zeroing in on the relationship between audit committee characteristics and quality of financial reporting. The research findings showed that poor quality financial reporting in state owned enterprises in the transport sector were mainly as a result of ineffective audit committees which lacked independence, financial expertise and which did not meet frequently.

Mwangi (2018) studied the effect of audit committee characteristics on quality of financial reporting among non-commercial state corporations in Kenya. The aim was to establish the effect of audit committee independence, diversity, financial competence and meetings on quality of financial reporting. The study used census on all 72 state corporations. The findings from both correlation and regression analysis revealed that audit committee independence, audit committee diversity, audit committee financial competence and audit committee meetings had statistical significant relationship with the quality of financial reporting. The results revealed that audit committee independence, audit committee diversity, audit committee financial competence and audit committee meetings reduced the ratio of queried transactions to annual budget of non-commercial state corporations in Kenya.

Suprianto, Suwarno, Murtini, Rahmawati and Sawitri(2017) conducted a study on audit committee accounting expert and earningsmanagement. The research aimed to analyze the effect of accounting expert of audit committee on earnings management. The population is all of firm’s which was listed in Indonesia Stock Exchange and purposive sampling was used to collect data. The result showed that accounting expert of audit committee has negative effect on earnings management.

Rabab’ah, Al-Sir andAlzoubi (2017) studied the impact of the audit committees' properties on the quality of the information in the banking financial reports of Saudi commercial banks. The study aimed to identify the impact of the audit committees' properties on the quality of the information of the banking financial reports in the Saudi commercial banks by identifying the effect of identifying tasks and duties, independence, accounting and banking experience and efficiency of the audit committee on achieving the quality of the Saudi banking and financial reports. 105 questionnaires were analyzed and found that the availability of the audit committees' properties affect increasing the quality of the financial reports in the Saudi banking. That is, the functions and duties of the audit committee, the committee's independence in banks, the availability of the accounting and banking experience for the members of the audit committee and the efficiency of the audit committees at banks.

Alexander and Eyesan(2015)conducted a study on audit committee characteristics, board characteristics and financial reporting quality in Nigeria. The aim was to examined the relationship between audit committee characteristics, board characteristics and financial reporting quality in the Nigerian banking sector and sample of nine banks was selected using the simple random sampling technique. The result of the study showed a positive relationship between audit committee meetings and financial reporting quality.

Muhammad, Ayoiband Noor (2016)conducted a study on audit committee independence, financial expertise, share ownership and financial reporting quality in Nigeria. The study investigated the characteristics of audit committee and its effect on the quality of financial reporting of Nigerian listed firms. 101 firm-years longitudinal panels of 505 observations of non-financial listed companies on the Nigerian Stock Exchange was used. The results showed that control variables of company age and company size significantly affect the quality of financial reporting. The AC, share ownership, and financial expertise was also significant, indicating that AC monitoring mechanisms influence the quality financial reporting of listed non-financial firms in Nigeria. Share ownership proved to be a good motivator for AC members making them to be more vigilant, enthusiastic and active in their monitoring responsibilities.

Onyabe, Okpanachi, Nyor, Yahaya and Mohammed (2018)studied audit committee meeting, audit committee expertise and financial reporting quality of listed deposit money banks in Nigeria and examined the effect of audit committee meeting and expertise on financial reporting quality of listed deposit money banks in Nigeria.Fifteen listed deposit money banks over a period of ten years 2007-2016 was used. The study revealed and concluded that the effect of audit committee meeting on the financial reporting quality of listed deposit money banks in Nigeria in model 1 is positive and insignificant while it is negative and insignificant in model 2.

Oji and Ofoegbu (2017)studied the effect of audit committee qualities on financial reporting of listed companies in Nigeria. The aim was to evaluate the effect of Audit Committee Qualities on Financial Reporting of listed companies in Nigeria.The study used structured questionnaires. Results of the analyses suggested that audit committee independence, audit committee members' qualification and audit committee monitoring function have a significant and positive effect on financial reporting of listed firms in Nigeria. The study provided evidence to shareholders that qualification of audit committee members should be considered seriously during their appointment to improving the quality of financial reporting and achieving audit committee members’ independence.

Asiriuwa, Aronmwan, UwuigbeandUwuigbe (2018) studied audit committee attributes and audit quality. The study examined audit committee attributes and audit quality with emphasis on the specific requirements of the 2011 SEC code (Nigeria). Data used for the study were 150 firm-year observations from the annual reports of quoted companies on the floor of the Nigerian Stock Exchange. Findings from the study revealed that audit committee size, frequency of meetings, number of expertise and overall effectiveness all have a positive relationship with audit quality. However, only size and overall effectiveness were significant in their relationship.

Umobong andIbanichuka (2017)conducted a study on audit committee attributes and financial reporting quality of food and beverage firms in Nigeria. The purpose of the study was to examined the relationship between audit committee characteristics and financial reporting quality of food and beverage firms using secondary data obtained from Nigeria Stock Exchange. The study confirmed that increase in audit committee independence, financial expertise of members, firm age and frequency of meetings increases financial reporting quality. While increase in audit committee size and firm size decreases reporting quality.

Eyenubo, Mohamed, Tunku and Safinaz(2017) did an empirical analysis on the financial reporting quality of the quoted firms in Nigeria: does audit committee size matter? The paper examined the relationship of audit committee size and financial reporting quality in Nigeria. Used a sample of 189 companies and 664-year observation from the period of 2011-2015 and panel data regression was adopted. Also, the study found that audit committee size was positive and significant with financial reporting quality.

Temple (2016) studied audit committee number of meetings and earnings management in quoted Nigerian banks. The study investigated the effect of audit committee number of meetings on quality of financial reporting in quoted Nigerian banks. The investigation adopted archival data generated from fifteen banks whose stocks are bought and sold on the floor of Nigerian Stock Exchange at December 31, 2016. The study discovered that audit committee number of meetings has no significant/substantial influence on earnings management in quoted Nigerian banks during time of the study.

Ibadin and Afensimi(2015) studied audit committee attributes and earnings management in Nigeria. The study postulated that audit committee attributes can impact significantly, constraining accrual-based distortion of financial reporting credibility and thus improve the quality of financial reporting. The study adopted the cross-sectional design and the population of the study comprises of all companies quoted on the stock exchange while simple random sampling method is chosen to eliminate biases in the choice of any company selected as a constituent of the sample.The study found that audit committee characteristics have a constraining effect on earnings management.

Salihi and Jibril (2015) studied the effect of board the size and audit committee the size on earnings management in Nigerian consumer industries companies and the objective of the study was to examinethe relationship between board the size, the audit committee the size and earnings management in Nigerian consumer industriescompanies.The study used total of 29 companies in the consumer sector of the Nigerian stock exchange were analyzed using multiple linearregressions. Data was obtained from secondary sources alone using annual report and account of the companies for the periodsof 2010 to 2013.The results showed that audit committee the size is negatively and significantly affects earnings management, theresult further suggestted that larger board is not efficient to minimize the tendency of managing earnings.

Eyenubo, Mohamed, Tunku and Safinaz(2017) studiedan empirical analysis of audit committee size on the financial reporting quality of the quoted firms in Nigeria.This study examined the relationship of audit committee size and financial reporting quality in Nigeria.The empirical study used a sample of 189 companies and 664 year observation from the period of 2011-2015. Panel data regression was adoptedand audit committee size was found positive and significant with financial reporting quality. The result underscored the importance of the corporate governance recommendation as a mean of strengthening the monitoring and oversight role of audit committee plays in the financial reporting process

Onyabe, Okpanachi, Nyor, Yahaya and Mohammed (2018) conducted a study on audit committee meeting, expertise and financial reporting quality of listed deposit money banks in Nigeria. This study examined the effect of audit committee meeting and expertise on financial reporting quality of listed deposit money banks (DMB's) in Nigeria.The study used panel data obtained from the Nigerian Stock Exchange fact books and the financial statements of fifteen (15) listed deposit money banks over a period of ten years (2007-2016). The study used cross sectional and time series research design. The modified Jones (1991) model was adopted to measure financial reporting quality. The data was analyzed using STATA.The study revealed and concluded that the effect of audit committee meeting on the financial reporting quality of listed deposit money banks in Nigeria in model 1 is positive and insignificant while it is negative and insignificant in model 2. Also, the study revealed that the effect of audit committee expertise on the financial reporting quality of listed deposit money banks in Nigeria is negative and insignificant in model 1 while in model 2 it is negative and insignificant.

Ojeka, Iyoha and Asaolu (2015) studied audit committee financial expertise: antidote for financial reporting quality in Nigeria. This study empirically investigated the impact of audit committee financial expertise on the quality of financial reporting. The financial reporting quality was measured by reliability (total accrual quality) and relevance (audit report lag). Fifteen money deposit banks were selected and data was collected for the period (2003-2012). Analyses were carried out using Correlation, Ordinary Least Square and Panel Least Square. The study found, after controlling for firm size, audit type, age of firm, audit committee meeting and audit committee size, that, audit committee financial expertise showed a negative coefficient for total accrual quality and audit report lag. This means financial expertise had a positive significant impact on financial reporting quality in Nigeria.

2.5 THEORETICAL FRAMEWORK

Agency Theory

The agency Theory is a common practice in research that explains the relationship between the principal (shareholders) and the agent (managers). The origins of the agency theory can be traced back to Jensen and Meckling (1976) and the discussion of the problem of the separation of ownership and control. They suggested that managers of other people's money cannot be expected to watch over it with the same anxious vigilance one would expect from owners and that negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company. They defined the relationship between the principals, such as shareholders and agents such as the managers and held that managers will not on their own act to maximize the returns to shareholders unless appropriate governance structures are implemented to safeguard the interests of shareholders. Separation of ownership and control leads to potential conflicts of interest between both parties. This may be because the parties may have different goals, and the managers may not act on behalf of the best interests of the shareholders (Bukit & Iskandar, 2009; Jensen &Meckling, 1976). Gerayli, Yanesari and Ma'atoofi (2011) confirmed that this agency problem leads to the demand for external auditing.

Thus, the finding supports the agency theory which endorses that high percentage of financial experts in the board is a vital instrument for board monitoring because it leads to a healthier financial reporting quality (Pfeffer &Salancik, 2003).This result supports agency theory in which independent directors would minimize information asymmetry (Hashim & Abdulrahman 2011) and reduce agency problem (Islam, Islam, & Islam, (2010). The formation of audit committees is anticipated on agency theory which suggestted that a companies' demand for an audit committee is related with the magnitude of its agency problem. Agency problem arises as an outcome of separation between ownership and control. Habitually shareholders are circulated in Nigeria and cannot hold the professional managers accountable (Samuel, 2012). Islam et al,. (2010) noted that the problem usually inherent in the agency association is that the agent and the principal may be at disagreement with each other for the following reasons among others:

a) The agent is generally expected to be a risk- averter while the principal is expected to be a risk –seeker or risk- averter.

b) The agent might have a shorter duration with the management than the principal

c) The agent's earnings are permanent (in the absence of incentive payments) while the principal is the residual claimant.

d) The principal does not directly take part in the day to day organization decision-making and control.

e) There is information asymmetry amongst the agent and the principal as the principal is ignorant of many details of the agent's action (Islam et al., 2010).

Agency theory supports the delegation and the concentration of control in the board of directors and use of compensation incentives (Salleh, Stewart & Manson, 2006; Yunus, 2011).The agency theory presents a basis for the governance of firms via different internal and external control mechanisms. These mechanisms are designed to ensure agent-principal interest alignment, protect shareholders' interests and thus reduce agency cost (Martinez, 2010). However, several factors may lead to manipulation, regardless of the kind of relationship between principals and their agents, such as pressure, opportunity and ethics (Nicola, 2006). Therefore, the kind of relationship between principals and their agents may reduce manipulation but cannot eradicate it (Osma, 2008).

Entity Theory

The entity theory is a basic assumption that all economic activities conducted by a business are separate from that of its owners. The entity theory is based on the idea that all of a company's activities can and will be accounted for independently from the owners' activities. Under this theory, the owners aren't personally responsible for the company's loans and liabilities.In terms of business liability, limited liability for owners in certain businesses is essential for commerce. To maintain a system that separates owners from company liability, the entity theory establishes a baseline that makes it possible to separate the business finances from the owners.The separation of personal and professional business activities is a consistent and significant aspect of commerce around the world.

Under the entity theory, liabilities are equities with separate legal standing and rights within the business. In relation to accounting, the entity theory keeps obligations, assets, revenues, any expenses and all other financial aspects of a company separate from the personal finances and financial activities of the company's owners. Thus, the identity of the company and the identity of the company's owners and managers are separate.

Proprietary Theory

In this theory, the viewpoint of the owners' group is the center of interest and it is reflected in the way that accounting records are kept and the financial statements are prepared. The primary objective of this theory is the determination and analysis of the proprietor's net worth. Under this theory, the entity is the agent, representative, or arrangement through which the individual entrepreneurs or shareholders operate. The proprietary theory has two classification depending upon who is considered to be included in the proprietary group, in the first type, only common shareholders are part of the proprietary group and preferred dividends are deducted when calculating the earnings of the proprietary. The second form of the proprietary theory, both the common capital and preferred capital are included in the proprietor's equity. Here, the focus of attention becomes the shareholders equity section in the balance sheet and the amount to be credited to all shareholders in the income statement.

For the purpose of this study, Agency theory would be the best theory to be adopted because shareholders of an organization will delegate some duties to the management and this brings about agency theory

2.6 Gap in Literature

Previous studies have confirmed a positive and beneficial relationship of audit committee and the quality of financial report, other studies confirmed no relationship existed. Thus, this creates gaps and increases the scrutiny of researchers. To fill the gap, this study will consider the audit committee components, audit committee background profile and audit committee statutory checklists and the relationship with the quality of financial report of listed financial institutions in Nigeria.

III. Methodoly

The design of this study was constructed to source data from secondary sources. Correlational research design was adopted in collecting data from a sample of 40 out of the total population of 57 financial institutions listed in Nigerian Stock Exchange as at 2017. Analysis was conducted using the obtained data from the selected company's annual report and also Nigerian Stock Exchange fact book in order to solve the research questions in this study. Data was sourced from secondary sources. The data were extracted from the annual reports of financial companies and Nigerian Stock Exchange fact book. The data covers the period of ten years ranging from 2008 to 2017. This source was used in order to obtain quantitative information on the variables that exists in the model developed in the study through annual reports of the selected companies listed in the Nigerian Stock Exchange.

The existing theories and studies provide models for determining only two out of the three objectives of audit committee characteristics and the quality of financial report of listed financial institutions in Nigeria, while the first objective, which was to examine the effect of audit committee components on the quality of financial statements of listed financial institutions in Nigeria, does not have an existing model. As a result of this, a model was developed for the first objective, thus:

$QFS_{it} = f\text{ (Audit Committee Components)}_{it} + e_{it}$

$QFS_{it} = \propto + \beta_1 ACM_{it} + \beta_2 ACS_{it} + \beta_3 DIV_{it} + e_{it}$ --(i)

Where:

$\propto$ = Intercept coefficient

$_{it}$ = Symbol of Panel data

β_1 = Slope coefficient for Audit Committee Meeting

β_2= Slope coefficient for Audit Committee Size

β_3= Slope coefficient forAudit Committee Diversity

e_{it} = Error term

ACM = Audit Committee Meeting

ACS = Audit Committee Size

DIV =Audit Committee Diversity

QFS = Quality of Financial Statement

Where:

Quality of Financial Statement = Market Value of Firm

Note: Market Value of Firm is the proxy of Quality of Financial Statement

e = error term

The second objective, which was to assess the effect of the background profile of audit committee members on the quality of financial statements of listed financial institutions in Nigeria, was also analyzed by using multiple regression model, but with a dummy variable within the model, thus:

$QFS_{it} = f\text{(Background Profile)}_{it} + e_{it}$

$QFS_{it} = \propto + \beta 1EQit + \beta_2 EXP_{it} + \beta_3 (AOS)_{it} + e_{it}$- --- (ii)

$\propto$ =intercept coefficient

$_{it}$ = Symbol of Panel data

β_1 = slope coefficient for EQ

β_2 = Slope coefficient for EXP

β_3 = Slope coefficient for AOS

QFS = Quality of Financial Statement

EQ = Educational Qualification

EXP = Experience

AOS = Area of Specialization

e = error term

The third objective, which was to ascertain the effect of statutory checklists on the quality of financial statements of listed financial institutions in Nigeria, was also analyzed by using multiple regression model, with a dummy variable within the model, thus:

$QFS_{it} = f\text{(StatutoryChecklists)}_{it} + e_{it}$

$QFS_{it} = \propto + \beta 1FEAC_{it} + \beta 2DUM(ACI)_{it} + \beta 3AOM_{it} + e_{it}$ ---(iii)

$\propto$ =intercept coefficient

$_{it}$ = Symbol of Panel data

β_1 = slope coefficient for FEAC

β_2 = Slope coefficient for DUM(ACI)

β_3 = Slope coefficient for AOM

DUM = Symbol for dummy variables of ACI

Note: For Audit Committee that has Independent Directors, Dummy = 1

For Audit Committee that does not have Independent Directors, Dummy = 0
QFS = Quality of Financial Statement
FEAC = Financial Expertise of Audit Committee
ACI = Audit Committee Independence
AOM = Attendance of Meeting
e = error term

IV. Data Analysis, Results And Discussion Of Findings

4.1The Effect of Audit Committee Components on the Quality of Financial Statements of Listed Financial Institutions in Nigeria

Panel data least square regression was adopted in this objective. Pooled OLS, fixed effect and random effect were carried out, and was followed by Hausman test. Panel data least square regression was adopted in this objective. The study on this objective which was conducted with the aid of a panel data multiple regression, available in E-View. It based its acceptance or rejection on the P-value of the individual independent variables. Hence, most of the independent variables were significant and thus the null hypothesis, which stated that there is no significant relationship between the audit committee components and quality of financial statements of listed financial institutions in Nigeria was rejected.

4.2The Effect of Audit Committee Components on the Quality of Financial

Panel data least square regression was also adopted in this second objective. Pooled OLS, fixed effect and random effect were carried out, as revealed in the table 4.4 and was followed by Hausman test. From there, the random effect was selected by Hausman test, while fixed effect was rejected. This was due to the fact that the P-Value of the Hausman test was more than 5%, being 0.4557. The result of the random effect showed that the independent variables such as, Experience (EXP) and Area of Specialization (AOS) had significant P-Values, due to the fact that they were less than 5%, while Educational Qualification (EQ) was not significant. The study which was conducted with the aid of a panel data multiple regression, is available in E-View. It based its acceptance or rejection on the P-value of the individual independent variables. Hence, most of the independentvariables were significant and thus the null hypothesis, which stated that there is no significantrelationship between the background profile audit committee and quality of financial statements of listed financial institutions in Nigeria was rejected.

4.3 The Effect of Statutory Checklists on the Quality of Financial Statements of Listed Financial Institutions in Nigeria

Finally, panel data least square regression was also adopted for the third objective. Pooled OLS, fixed effect and random effect were carried out, as revealed in the table 4.5 and was followed by Hausman test. Hence, the random effect was again selected by Hausman test, while fixed effect was rejected. This was also due to the fact that the P-Value of the Hausman test was more than 5%, being 0.7297. The result of the random effect showed that only one independent variable, Financial Expertise of Audit Committee (FEAC) had significant P-Values, due to the fact that it was less than 5%, while the other two independent variables, Dummy variable of Audit Committee Independence (DUM(ACI)), Attendance of Meeting (AOM) were not significant (EQ), as there P-Values were more than 5%.

The study on this objective which was conducted with the aid of a panel data multiple regression, available in E-View. It based its acceptance or rejection on the P-value of the individual independent variables. Hence, since most of the independent variables were not significant and thus the null hypothesis, which stated that there is no significant effect of statutory checklists on quality of financial statements of listed financial institutions in Nigeria was rejected.

V. Summary, Conclusion And Recommendations

This study focused on audit committee characteristics and the quality of financial report of listed financial institutions in Nigeria. The objective of this study are in three folds; to assess the audit committee components and the quality of financial report of listed financial institutions in Nigeria, to assess the effect of background profile of audit committee members on the quality of financial report of listed financial institutions in Nigeria and to ascertain the relationship between the statutory checklists and the quality of financial report of listed financial institutions in Nigeria. These objectives were achieved through secondary data from the annual report of forty (40) financial institutions listed on the Nigeria Stock Exchange. Data obtained were analyzed through descriptive statistics and least square regression. The findings from the research are outlined below:

i. Audit committee meeting, audit committee size, attendance of meetings, audit committee diversity, audit committee independence, educational qualification, experience , financial expertise and quality of financial statement was positively skewed to the right and the Jarque-Bera statistics showed that the variables were normal while area of specialization skewed negatively to the left and the Jarque-Bera statistics showed that the variable was not normal.

ii. Panel unit root test was also used to test audit committee meeting, audit committee size, attendance of meetings, area of specialization, audit committee diversity, audit committee independence, educational qualification, experience , financial expertise and quality of financial statement and found that all the variables were stationary at 1% level of significance except financial expertise of audit committee that was not stationary.

iii. Audit committee size had a significant probability value of 0.0423 and a positively high coefficient value of 8.89206 and this shows that it has effect on the quality of financial statement; audit committee diversity had a significant probability value of 0 and a positive coefficient of 17.49 and this shows that it has effect on the quality of financial report, while audit committee meetings had a P-value of 0.1626 and it shows that it does not have effect on the quality of financial statement.

iv. Experience of the audit committee members had a significant probability value of 0 and a positive high coefficient value of 8.571589 and this shows that it has effect on the quality of financial statement. Area of specialization had a significant probability of 0 and a positive high coefficient of 6.374394 and shows that it has effect on the quality of financial statement. Educational qualification had an insignificant P-value of 0.3227 and it shows that it does not affect the quality of financial statement.

v. Financial expertise of audit committee had a highly significant probability value of 0 and a positively high coefficient value of 5.578121 which shows that it affects the quality of financial statements while on the other hand, audit committee independence and attendance of audit committee meetings does not affect the quality of financial statement.

This study concludes that there is a significant relationship between the audit committee size and diversity and the quality of financial report of listed financial institutions in Nigeria, while no significant relationship was found with audit committee meetings. Secondly, audit committee experience and audit committee area of specialization have significant relationship with the quality of financial report of listed financial institutions in Nigeria while there is no significant relationship with audit committee educational background. Finally, financial expertise among audit committee have a significant relationship with the quality of financial report of listed financial institutions in Nigeria while no significant relationship was found with audit committee independence and audit committee attendance of meetings.

Based on the findings and conclusion of this study, it recommends that the number of audit committee members and the number of females among the committee should be taken into consideration and focus more effort on them because they can affect the quality of financial report. Secondly, this study recommends that experienced members with knowledge in accounting and auditing shouldbe more because they will have valuable views and comments in improving the committee's productivity and also members who specializes in accounting and finance can analyze and examine the financial statement effectively and efficiently for better results. Thirdly, it recommends that government and governing bodies should make sure that the code of corperate governance should be strictly followed so that more audit committee members that are financially expert will be encouraged in order to increase the quality of financial report.

This study will contribute to knowledge by linking the gap in the prior studies on the impact of the audit committees by focusing on the characteristics of the audit committees and its relationship with the quality of the financial reporting of financial institutions, that is, banks and insurance companies listed in the Nigerian Stock Exchange. This research will help to contribute in clarifying the importance of having certain characteristics in the audit committees of the financial listed institutions to achieve higher quality of financial reports. This will also help researchers to have more interest in audit committee components and background profile, internal control, cooperate governance and also to be interested in the content of the annual report of listed companies.

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