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IMPACT OF AUDIT COMMITTEE SIZE AND MEETINGS ON FINANCIAL REPORTING QUALITY OF LISTED COMMERCIAL BANKS IN NIGERIA

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ABSTRACT
The study aims at assessing the impact of audit committee size and meetings on financial reporting quality of listed commercial banks in Nigeria. The study covered a period of ten (10) years from 2013 to 2022. The study used panel data research design techniques for a sample of eight (8) commercial banks out of the fourteen (14) quoted banks on the Nigerian Exchange Group. The data for the study were collected from the annual accounts of the sampled banks through the measurements of the variables. The study found that, Audit committee size (ACSIZE) has a positive insignificant impact on FRQ and Audit committee meeting (ACMTGS) has a negative insignificant impact on FRQ. Therefore, the study recommends that commercial banks should invest more in training of its audit committee members and allow them to acquire professional qualifications.

Keyword: Audit, committee size, meetings, financial reporting quality

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1.0 INTRODUCTION

One mechanism that has been widely used in worldwide organization to monitor the financial reporting process is the establishment of an audit committee comprising majority of independent directors. The existence of an audit committee could improve the quality of financial reporting and internal control of commercial banks in Nigeria. This could be done by bridging the communication gap between the auditors and management of the banks through strengthening the roles of the internal auditors. Although audit committee have been in existence for decades, there are criticism of the practices of audit committee and a large amount of research have been undertaken to identify an ideal audit committee that would act in the interest of shareholders (Abbot & Parker, 2000; Krishnan, 2005). Audit committee serve as a bridge kin the communication network between internal and external auditors and the Board of Directors. And their activities include review of nominated auditors, overall scope of audit, result of the audit internal financial controls and financial information for publication (2004). Indeed, the existence of an audit committee in a company would provide a critical oversight of the company's financial reporting and auditing process (Waller, 2004).

The audit committee is charged according to section 369 subsection 3 and 6 of CAMA to review the audited report to ascertain that auditing is carried out with full compliance with relevant rules and regulations guiding the proper preparation and presentation of the financial report and that the auditor has examined all the necessary document in line with relevant accounting and auditing standards. Audit committee is anticipated to ensure that a business organization like commercial banks has sufficient internal control system, proper accounting policies, and independent external auditors that will prevent the incidence of fraud, non-compliance and promote high quality and timely financial reports.

Commercial banks as the case study provide backup liquidity to the economy, interprets monetary policy and provide some "value addition" in the banking sector by transferring funds from surplus to deficit sectors of the economy, also help to enhance development of international trade especially when acting as referees to importers, providing travelers' cheques and Business Travelling Allowance (BTA) to those going for international businesses. However, Commercial banks contribute positively towards economic growth, development and wealth creation, provide and encourage savings and investments, facilitate but speed up the process of economic development through making more funds available from resources mobilized in the economy.The main purpose of this study is to assess theimpact of audit committee size and meetings on financial reporting quality of listed commercial banks in Nigeria.

2.0 Literature Review

2.1 Conceptual Review

Audit committee (AC) is expected to play vital role in the areas of financial reporting (including financial controls) auditing and corporate governance (facilitate communication between the board of directors and the external auditors). Other important functions of audit committee are to review financial statements, effectiveness of internal and external audits, management letter of the external auditor, and to evaluate auditor's independence. With these important responsibilities on the shoulders of the audit committee it becomes relevant to research into the impact of audit committees on quality of financial reporting of some quoted commercial banks in Nigeria.

Biddle et al. (2009) and Nasser and Nuseibeh (2003) define financial reporting quality as the precision with which financial reporting conveys information about the firm's operations or compliance of accounting standards of a particular country, or the extent to which the published financial statements and related disclosures capture the essence of the operations and financial position of the reporting entity. The International Accounting Standards Board (IASB, 2010) Framework for the Preparation and Presentation of Financial Statements states that there are some qualitative characteristics that make the information provided in financial statements useful to users. These qualitative characteristics are relevance, faithful representation, comparability and understandability. The benefits of information may be increased by making it more understandable and hence useful to a wider circle of users. Presenting information, which can be understood only by sophisticated users and not by others creates a bias, which is inconsistent with the standard of adequate disclosure. Presentation of Information should not only facilitate understanding, but also avoid wrong interpretation of financial statements. Preparers of financial statements compute accounting ratios to enable users understand the reports. Another enhancing quality of accounting information is that of comparability. Users must be able to compare the financial statements of an organization over time to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different organizations to evaluate their relative financial position, performance and financial adaptability. Consistency is therefore required (IASB, 2010).This study defines the quality of financial reporting in terms of the qualitative characteristics. The measurement of financial reporting quality in terms of qualitative characteristics is important because the qualitative characteristics are those attributes that make the information in the financial statements useful to users (IASB, 2010).

2.2 Empirical Review of Literature

Ahmed and Ahmed (2022) conceptualize the effect of audit committee attributes on value of listed DMBs in Nigeria. Issues with regards to value of DMBs in Nigeria remain unsolved. DMBs have multiplier effects on growth and development of any economy as such value of this sector need to be protected. However, Audit committee attributes have vital role to play towards improving value of listed DMBs base on functions it performs in overseeing the company's financial system, disclosure, audit process, reviews various decisions and tasks performed by the management as well as operates in the shareholders' interest based on objectivity with the aim of reducing agency conflicts, business failure, accounting scandals, fraud and other financial irregularities. The target population of their study comprises all listed DMBs on Nigeria stock exchange (NSE) and census sampling technique was employed. Previous studies were found to be contradicting one another, pertaining effect of AC attributes on value, while studies in Nigeria were limited and inaccessible. Thus, the study conceptualized the effect of audit committee attributes namely: AC size, Independent, financial expertise, gender diversity, meetings, meeting attendance, tenure, busy and share ownership on value of DMBs.

Ayinla et al. (2022) investigated the influence of audit attributes on the financial reporting quality of twelve (12) listed Deposit Money Banks in Nigeria from 2012 to 2018. The study used a correlational research design. As a data analysis approach pooled OLS regression was employed. Audit committee independence, audit committee expertise, and audit tenure were employed as proxies for audit attributes, whereas financial reporting quality was utilized as a dependent variable in Nigeria utilizing discretionary accrual (DMBs). The study's population

consists of fourteen (14) listed DMBs, whereas the adjusted population consists of twelve (12) listed DMBs. Panel data were extracted from the financial report based on the Modified Jones model. The panel data regression results demonstrated that audit committee independence and audit committee expertise had a favourable and significant impact on the financial reporting quality of Nigerian listed DMBs. As a result of the study's findings, audit committee independence and audit committee expertise have a significant propensity to enhance financial reporting quality. By the findings, the research suggests that bank regulators consider mandating professional qualifications, as proposed by the FRCN in the 2016 draft of the suspended NCCG, to improve the audit committee's expertise and diligence. It also suggests that audit committee independence should be focused on how to guarantee financial reporting quality properly reflects the honest and fair picture of the financial report to avoid misleading all of the consumers across the globe of accounting information.

Eseoghene and Oghenevwogaga (2021) This study was carried out to assess whether audit committee characteristics drive financial performance of publicly quoted service firms in Nigeria. Audit committee characteristic was measured using audit committee size and independence, financial performance by return on equity and earnings per share, while control variable is natural logarithm of total assets. Data were obtained from the annual reports and accounts of sixteen (16) publicly quoted service firms during the period 2012-2019. Multivariate estimation technique was employed in the analysis of data and findings indicated that audit committee characteristics significantly and positively affect financial performance. Moreover, while financial performance measure of return on equity negatively affects the size of firm, earnings per share do not. In view of the findings, it is recommended that the audit committee members should be empowered to be more independent in order to ensure significant audit that can propel financial performance; this would enhance financial performance of publicly quoted companies.

Ogwumike (2020) posit that the Covid-19 pandemic has created enormous challenges for the people and economies around the globe and the fallout from this would permanently reshape our world as it continues to unfold. The new virus disease (covid-19) was unknown before it spread in Wuhan, China, in December, 2019 and it really dealt a blow to the world, particularly the developed societies. The impact of the pandemic can be seen across the sectors (Jones et al 2020). The paper highlights the challenges faced globally by all sectors during the pandemic and the underlying opportunities to fill existing gap in the system. The paper also, in a brief discourse, looked at what the situation was in the context of Nigeria. The paper underlines governments efforts and response towards containing and fighting the pandemic and ameliorating the effects of the measures undertaken by her to checkmate its spread through restriction of movement, lockdown and social/physical distancing. The paper concludes that the economy should be reformed and that government should advance to digital technology; that it is in everyone’s interest that people who feel unwell should not check their pocket before they seek medical attention, that government should make policy of free health care, and do well to strengthen the weak institutions by investing in health care infrastructure, to improve on the health facilities and the ability of the national health system to withstand any future outbreak of contagious diseases.

Madugba et al. (2021) is of the view that the credibility of financial reporting is crucial as it assures the user of its authenticity. In this study, we examined the effect of audit committee

quality on the quality of financial reporting of deposit money banks in Nigeria. A descriptive research design was adopted and secondary data sourced from annual accounts of seven deposit money banks for seven years were used to test our hypotheses. The dependent variable in this study is financial reporting quality measured with accrual model. In contrast, the independent variables are the number of members on the audit committee with accounting and finance knowledge, the size of the audit committee, the number of audit committee meetings held in a year and audit committee independence. Descriptive statistics, normality test, a multicollinearity test and regression analysis were used to examine the data. A notable outcome revealed that except for several audit committee meetings held in a given year the other independent variables were found to be insignificant and are not, therefore, determinant of financial reporting quality in deposit money banks in Nigeria. The study concluded that audit committee quality is not a determinant of financial reporting quality in deposit money banks in Nigeria and the study recommends that ability should be paramount for the appointment of members to the audit committee and advises that the audit committee should always be given adequate consideration by management in decision making.

Joshua et al. (2019) examined corporate governance and financial performance of listed deposit money banks (DMBs) in Nigeria. The study covered listed DMBs listed in the Nigerian Stock Exchange (NSE) for a ten-year period from 2007–2016 and data were obtained from their annual financial reports. Data were presented using tables and analyzed using panel data regression. The corporate governance mechanisms of board size (BSIZE), board composition (BCOM) and audit committee (ACOM) were used as independent variables. Performance of the listed DMBs was measured by return on asset (ROA) which is the dependent variable while the bank size (FSIZE) was used as a control variable. The findings of this study revealed that board size had a positive but insignificant relationship with performance. It was also observed that audit committee, board composition and bank size all had positive and significant relationships with return on asset. The study therefore concludes that board composition and audit committee are good predictors of performance as measured by return on assets (ROA).

2.3 Theoretical Framework

This section reviewed the relevant theories explaining the effect of free cash flow on the relationship between ownership structure and financial performance of corporate organisations. The research work was based on agency theory and agency cost theory (free cash flow theory). The aim is to view the relationship that exists between the firms and their owners in the context of free cash flow realized from the activities of the firms.

2.3.1 Agency Theory

According to the agency theory, the separation between managers as agents of the firm from owners (shareholders) create clash between interest of management and shareholders. Managers normally try to exploit their personal interest even at the expense of shareholders. This conflict of interest between managers and shareholders give birth to the earning management which affects the disclosure of financial statement. Managers are reasonable about preparing financial statements, so they exercise their discretionary powers when they report the earnings to influence firms' performance which can benefit their personal interest according to Jensen and Meckling (1976) as cited by Al-own and Alhadab (2017). As argued by Bilal et al., (2018) agency theory requires an audit committee to reduce cost by overseeing the financial reporting

quality process and improving the quality of financial statements. Similarly, in accordance with agency theory as cited by Sunarto (2009) in Ayu and Ahmar (2013),motivations of accruals management can be categorized into two categories: opportunistic and signaling. In opportunistic motivations, management through aggressive accounting policies generates higher earnings than the actual ones. Second, in signaling motivation, management presents financial information about earnings which are exaggerated to give prosperity signal or earnings which grow relatively or remain stable to shareholders. As argued by Hassan, (2015) the agency theory advocates that the nature of ownership has positive association with good earnings quality.

3.0 METHODOLOGY

Ex-post facto research design which involves measuring the effect of pre-selected independent variables of the study on the study dependent variablesThe listed Nigerian deposit money banks on the floor of the Nigeria Stock Exchange as at 31st December 2022, which comprise of fourteen banks will form the population of the study. The study will adopt census sampling technique to arrive at the sample size. A two-point filter will be used in arriving at sample size. First, the required data must be available for all the study period. Second, the bank must be listed during the study period. Hence, one bank i.e., Jaiz Bank will be filtered out accordingly. This is due to insufficient data within the scope of the study.Sources of data for the study will be from secondary sources. Data will be mainly sourced from the selected listed deposit money banks' annual financial reports and accounts, Nigerian stock exchange's fact book and other information relevant to the study.The panel data to be collected will be analyzed using Ordinary Least Square (OLS) to run regression using STATA as a tool of analysis. The study will employ multiple regression technique to determine the impact of the independent variable on the dependent variables. The robustness test like the Hausman test, heteroskedasticity test, multicollinearity test will be conducted to improve the validity of the result.

4.0 Results and Discussion

Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FRQ	100	.040044	.072056	0	.4355
ACSIZE	100	5.87	.3379977	5	6
ACMTGS	100	4.61	.8633386	3	7
LEV	100	.334858	1.518953	0	11.0561
FSIZE	100	12.12456	.42679	11.1945	13.5345

Source: Author's Computation using STATA 14

Table 4.1 shows that the observation column represents the number of observations for each variable. It indicates how many data points were used in the analysis. The mean column is the average or mean value of the variable across all observations. The standard deviation column measures the amount of variation or dispersion of a set of values. It provides a sense of how

spread out the values are around the mean. The minimum value observed in the dataset for each variable. The maximum value observed in the dataset for each variable.

FRQ has a mean frequency of approximately 0.040, with a standard deviation of 0.072. The frequency values range from 0 to 0.4355. ACSIZE has a mean value of 5.87, with a standard deviation value of 0.3380, a minimum and maximum values of 5 and 6 respectively. ACMTGS has a mean of 4.61, with a standard deviation value of 0.8633, a minimum and maximum values of 3 and 7 respectively.Regarding the control variables, LEV has a mean value approximately 0.3349, with a relatively high standard deviation of 1.5189. The leverage values range from 0 to 11.0561 for the minimum and maximum respectively. Also, FSIZE has a mean value of 12.1246, with a smaller standard deviation of 0.4268, a minimum and maximum values of 11.1945 and 13.5345 respectively.

Table 4.2: Correlation Matrix

Variables	FRQ	ACSIZE	ACMTGS	LEV	FSIZE	VIF
FRQ	1.0000					
ACSIZE	0.1334	1.0000				1.14
ACMTGS	-0.1373	-0.0717	1.0000			1.04
LEV	0.5702	0.0481	-0.0242	1.0000		1.02
FSIZE	0.0562	-0.2263	0.1793	0.0437	1.0000	1.21

Source: Author's computation using STATA 14

Table 4.2 shows that the diagonal elements represent the correlation of each variable with itself, which is always 1.0. For example, the correlation of FRQ with itself is 1.0, The correlation between LEV and ACMTGS is -0.0242, indicating a very weak negative correlation. The correlation between FSIZE and ACSIZE is -0.2263, indicating a moderate negative correlation. Correlation does not imply causation, and these values only describe linear relationships.

Table 4.3: Fixed Effect Model (Generalized Least Square)

FRQ	Coefficient	Std. Error	z	P>|z|
Constant	-0.1804	0.2081	-0.87	0.386
ACSIZE	0.0352	0.0174	2.02	0.043
ACMTGS	-0.0094	0.0065	-1.45	0.148
LEV	0.0258	0.0037	7.01	0.000
FSZIE	0.0103	0.0142	0.73	0.468
Wald chi2(6)	70.42			
Prob > chi2	0.0000			
Hausman	0.0000			
Hettest	0.0000			
Autocorrelation	(F1, 9) 30.366			
Pesaran's Test	5.133			

Source: Author's Computation using STATA 14

Table 4.3 provides information about the estimated coefficients, their standard errors, z-values, and associated p-values, as well as additional statistics for evaluating the overall model fit.

On the other hand, ACSIZE has a coefficient value of 0.0352, a standard error of 0.0174, z score value of 2.02 and P value of 0.043 which means audit committee size has a positive significant impact on FRQ holding other variables constant and it implies that an increase in audit size will also increase the FRQ of listed deposit money banks in Nigeria. ACMTGS has a coefficient value of -0.0094, standard error value of 0.0065, z score value of -1.45 and a P value of 0.148, this means that audit committee meetings has a negative insignificant impact on FRQ implying that a decrease in ACMTGS has no any influence on the quality of financial reports of listed deposit money banks in Nigeria.

As for the control variables, leverage has a coefficient value of 0.0258, standard error value of 0.0037, z score value of 7.01 and a P value of 0.000 which means that debt sought by the listed banks has a positive significant impact on FRQ. FSIZE has a coefficient value of 0.0103, standard error value of 0.0142, z score value of 0.73 and a P value of 0.468 which means that firm size has positive insignificant impact on FRQ implying that size of the banks is not a determinant for quality of financial reports.

Autocorrelations are often associated with time-series data. In this case, it suggests that there are no autocorrelations estimated, and the analysis involves 10 groups.

The Wald chi2 statistic is 70.42, and it is associated with a p-value (Prob > chi2) of 0.0000. This p-value is used to test the hypothesis that all coefficients (except the intercept) are simultaneously equal to zero. The Hausman specification test (0.000) chose fixed effect model, however, after running the heteroskedasticity test (0.000) for FE, the p value indicate presence of the Hettest, hence the autocorrelation (F1, 9) 30.366 and cross-sectional independence tests (5.133) were further conducted. The generalized least square was found to be appropriate model presented.

5.0 Conclusion and Recommendation

5.1 Conclusion

Based on the findings related to the four proxies of audit committee in the regression analysis, we can draw the following conclusions. The positive coefficient implies that an increase in audit committee size may be associated with an increase in the financial reporting quality of some commercial banks in Nigeria. The negative coefficient suggests that a decrease in audit committee meetings is associated with an increase in financial reporting quality of some commercial banks in Nigeria.

5.2 Recommendation

The study recommends the following based on the conclusions drawn:

- Audit committee size is set by the code of corporate governance at maximum of five members, hence the listed commercial banks should adhere to the codes.
- The listed commercial banks should minimize the frequency of meetings held in an accounting year as the cost undermines the quality of financial reports being produced.

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