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IMPACT OF AUDIT COMMITTEE EXPERTISE ON FINANCIAL REPORTING QUALITY OF LISTED COMMERCIAL BANKS IN NIGERIA.

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Abstract

Audit committees are by reference expected to bridge the expectation gap in providing a means by which the opinion expressed by auditors on a firms' financial statements can be seen as unbiased and independent. The aim of financial statements is to make available reliable information to assist users in taking stand, impact of audit committee expertise on financial reporting quality of listed commercial banks in Nigeria. The study is secondary sources of data. 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 was collected and analyzed using Ordinary Least Square (OLS) to run regression using STATA as a tool of analysis. The study employed 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 was conducted to improve the validity of the result. The result revealed that, 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. ACEXP has a mean value of 0.3237, with a standard deviation of 0.0958, a minimum and maximum value of 0.1667 and 0.6667 respectively. The correlation of FRQ with itself is 1.0, and ACEXP is 0.1640, suggesting a very weak positive correlation. The correlation between LEV and FSIZE is 0.0437, indicating a very weak negative correlation. ACEXP has a coefficient value of 0.1073, a standard error of 0.0642, z score value of 1.67 and a P value of 0.094 which means that audit committee expertise has a positive insignificant impact on FRQ holding other variables constant. It can be recommended that, 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.

Keyword: Audit Committee Expertise, Financial Reporting Quality

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1.0 Introduction

Audit committees are by reference expected to bridge the expectation gap in providing a means by which the opinion expressed by auditors on a firms' financial statements can be seen as unbiased and independent. It is argued that the presence of audit committee is likely to lead to unnecessary rift between shareholders and directors as well as management and auditors. Also, where the managing directors a very influential member of the board and succeed in hijacking authority from others, the audit committee would have no choice but to dance to this tune, given the composition of the audit committee of equal number of directors and representatives of the shareholders of the company subject to a maximum of six (6) members. This makes the appointment of the committee necessary.

Due to the sensitivity of corporate financial reports (annual reports), more especially that of commercial banks in Nigeria results to the extension of audit function to be carried out by audit committee in order to ensure the quality of the financial reporting is at the highest level of relevancy, correctness, completeness, accuracy and unbiased. The audit committee is more consistent in preparing and analyzing financial reports (Alyaarubi, Alkindi, & Ahmed, 2021).

2.0 Literature Review

2.1.1 Concept of Expertise of Audit Committee

Similarly, the UK Corporate Governance Code (2010) proposes that "the board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience". Notably, in contemporary usage expertise refers to financial expertise as well as experience. There is no doubt that such requirements or specifications of audit committees' directors have been proved to be crucial in dealing with the intricacies and complexities of financial reporting and as well as for minimizing incidents of financial reporting quality (DeZoort & Salterio, 2001; Carcello & Neal, 2003). It appears that the growing call in most accounting literature suggest that audit committees members should have a specific qualification and expertise to discharge their tasks. It is no wonder then that this characteristic of audit committee members has received considerable attention in the extant literature.

2.1.2 Concept of Financial Reporting Quality

The aim of financial statements is to make available reliable information to assist users in taking stand. Kamaruzaman *et al.* (2009) stated that financial statements should be able to show pertinent, dependable, comparable and comprehensible information. It is therefore, useful to take a critical look at the different arguments aimed at diverse assessments and moulds posited in the yearly disclosure (Jonas and Blanchet, 2000). The IASB (2003) reports that those who use financial information ought to be easy to understand the facts provided effortlessly. The achievement of this lies in full disclosure of the annual report and a greater state of openness. The quality of financial reporting encourages openness and produces annual reports that are sound through adequate reporting. Economic disclosure remains the foremost avenue of interconnecting economic facts to those outside the firm assesses the economic wellbeing of a company in a bid to oversight management actions and contributes in making economic decisions (Warren and Reeve, 2004).

2.2 Empirical Review of Literature

Muazu and Aminu (2021) investigated the effect of audit committee characteristics on the financial reporting quality of Deposit Money Banks (DMBs) in Nigeria. The study used correlational research design. The source of data was secondary data which were collected from the published annual financial reports of the studied DMBs in Nigeria. The

population/sample size was 14 DMBs in Nigeria. A period of eleven years was covered from 2009 to 2019. The secondary data collected were analyzed using multiple regression analysis which was carried out using STATA software. Findings from the analysis show that frequency of audit committee meeting have positive and significant effect on the financial reporting quality of DMBs in Nigeria while audit committee financial expertise has significant negative effect on the financial reporting quality of DMBs in Nigeria. However, it was reported that audit committee independence has no significant effect on the financial reporting quality of DMBs in Nigeria. Based on the above findings, the study recommends that banks should sustain frequency of audit committee meetings, audit committee members should be well motivated so that they will not derail from their traditional roles of evaluating authenticity of financial reports prepared by management, and that more female audit committee members should be encouraged to make up the composition of audit committees of DMBs in Nigeria.

Ajape et al. (2023) examined the effect of audit committees on quality of financial reporting. The study used a cross-sectional with quantitative approach where the quantitative data was gathering via secondary data with Partial Least Square (PLS) approach. A sample size of 60 were select, (Financial companies 20, Industrial companies 20, and Service companies 20).The key source of sample companies in Muscat Stock Exchange (MSX). The findings showed that the audit committee positively large by a quality of financial reporting everywhere it was. The findings show that the audit committee has a significant impact on the quality of financial reports. This result indicates that the more audit committees, the higher the quality of financial reports.

Samuel (2012) investigated the impact of audit committees' attributes on financial reporting quality of Banks in Nigeria. Modified Jones model (1991) provided the measures of earnings quality, which were used to proxy for financial reporting quality. The audit committee attributes investigated was: independence, financial expertise, frequency of meetings, and multiple directorships. The population of our study is all the twenty-two (22) quoted banks on the Nigerian Stock Exchange as at 31st December, 2010filtered to eleven (11) banks considering only banks declared healthy by the CBN and having the relevant data required for the study. Secondary data were used obtained from secondary sources, i.e., annual reports and returns filed with SEC. The research design used is correlation research design. The effectiveness of Audit committee attributes is one of the significant themes in corporate governance debates. The study contributes to the debate by examining empirically whether audit committee attributes are associated with financial reporting quality in Nigerian banks. By using a measure of financial reporting quality, Jones (1991) model this study is one of the few studies that overcome the imprecision inherent in the abnormal accruals/earnings management. The study shows that after controlling for bank size and bank market penetration, the percentage of audit committee member shaving financial expertise is positively related to financial reporting quality. The study also finds some evidence of a positive relationship between the independence, frequency of meeting and multiple directorship of the audit committee and financial reporting quality.

Zubair (2015) posits that the recent corporate financial crises in different jurisdiction have necessitated the need for a sound corporate governance system. Thus, audit committee is one of the major corporate governance mechanisms design to ensure the effectiveness and efficiency of the board in monitoring and controlling the management and the operations of the banks with an eye of achieving the desired level of performance. This paper assessed the effect of audit committee characteristics on the financial performance of deposit money banks in Nigeria. Robust Ordinary Least Squares (OLS) multiple regression technique of data

analysis was used in the sample of 7 banks for a period of 10 years (2004-2013), using secondary data. The paper after controlling for firm size found a significant positive relationship between financial performance (ROA) and the characteristics of the audit committee. That is, the attributes of the audit committee of the deposit money banks (especially, independence and financial expertise) have significantly improved the financial performance of the banks during the period of the study. The paper also found that the size of the audit committee and the frequency of the committee's meetings have not significantly influence the financial performance of the banks.

2.3 Stewardship Theory

According to this theory, managers are expected to be good steward of organizational resources. They are not to misappropriate the organizational resources at this will adversely affect the attainment of other non-financial motives, such as the intrinsic satisfaction of successful performance and the need for achievement and recognition. This theory therefore, requires the directors of a company to be accountable for their stewardship over the company's resources, subject to the report from an independent auditor to the members that the accounts show a true and fair view.

As cited by Madison (2014), Stewardship theory is also about the employment relationship between two parties the principal (owner) and the steward (manager), (Davis et al., 1997; Donaldson and Davis, 1991). It examines this relationship from a behavioural and a structural perspective. Theory suggests that stewards will behave in a pro-social manner, behaviour which is aimed at the interest of the principal and thus the organization (Davis et al., 1997; Zahra et al., 2009). This behaviour is fostered by the quality of the relationship between the principal and steward and the environment and ideals of the organization (Corbetta & Salvato, 2004; Davis et al., 1997).From the above theory, it is clear that managers of the banks are not expected to pursue other objectives different from that of the organization. Effective audit committee and risk management committee oversight will ensure proper check and balance toward achievement of the organizational objectives.

3.0 Methodology

The listed Nigerian deposit money banks on the floor of the Nigeria Stock Exchange as at 31st December 2022, which comprise of fourteen Banks, formed the population of the study. The study adopted census sampling technique to arrive at the sample size. A two-point filter was used in arriving at sample size. First, the required data must be available for all the study period. Secondly, the bank must be listed during the study period. Hence, Jaiz Bank Plc, Unity Bank Plc, United Bank for Africa Plc, Starling Bank Plc, will be filtered out accordingly. This is due to insufficient data within the scope of the study.

Summary of sampling frame

S/N	Bank Name	Year of Incorporation	Year of Listing
1	Access Bank Plc	1989	1998
2	Eco bank Transnational Incorporated	1985	2006
3	FBN Holding Limited	2012	2012
4	FCMB Group Plc	2012	2013
5	Fidelity Bank Plc	1987	2005
6	GTB Plc	1990	1996
7	Stanbic IBTC Holding Plc	2012	2012
8	Union Bank of Nigeria Plc	1969	1970
9	Wema Bank Plc	1945	1991
10	Zenith International Bank Plc	1990	2004

The study is secondary sources of data. 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 was collected and analyzed using Ordinary Least Square (OLS) to run regression using STATA as a tool of analysis. The study employed 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 was conducted to improve the validity of the result.

4.0 Result and discussion

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FRQ	100	.040044	.072056	0	.4355
ACEXP	100	.323654	.0958387	.1667	.6667
LEV	100	.334858	1.518953	0	11.0561
FSIZE	100	12.12456	.42679	11.1945	13.5345

Source: Author's Computation using STATA 14

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 spreads 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. ACEXP has a mean value of 0.3237, with a standard deviation of 0.0958, a minimum and maximum value of 0.1667 and 0.6667 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 value of 11.1945 and 13.5345 respectively.

These statistics provide a summary of the central tendency, spread, and range of values for each variable in the dataset.

Correlation Analysis

This sub-section presents the result of the correlation matrix between the dependent, independent and control variables. Correlation matrix provides insight into the extent, strength, and direction of the relationship between two or more variables (Gujarati, 2004). The value of the correlation ranges from -1 to 1. The sign of the coefficient indicates the direction of the relationship (positive or negative) while the density of the value of the correlation coefficient indicates the extents of the relationship. The correlation shows weak, moderate or strong relationship between the variables. Generally, the coefficient on the main diagonal is 1.000, because each variable has a perfect positive linear relationship with itself.

Table 4.2: Correlation Matrix

Variables	FRQ	ACEXP	LEV	FSIZE	VIF
FRQ	1.0000				
ACEXP	0.1640	1.0000			1.24
LEV	0.5702	0.1160	1.0000		1.02
FSIZE	0.0562	0.3541	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, and ACEXP is 0.1640, suggesting a very weak positive correlation. The correlation between LEV and FSIZE is 0.0437, indicating a very weak negative correlation. Correlation does not imply causation, and these values only describe linear relationships.

4.2.4 Regression Analysis

Regression analysis is a technique conducted to estimate the unknown effect of changing one variable over another. When running a regression, two assumptions are made. First, there is a linear relationship between two variables and second the relationship is additive. Technically, linear regression estimates how much a dependent variable change when an independent variable also changes by one unit.

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
ACEXP	0.1073	0.0642	1.67	0.094
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. ACEXP has a coefficient value of 0.1073, a standard error of 0.0642, z score value of 1.67 and a P value of 0.094 which means that audit committee expertise has a positive insignificant impact on FRQ holding other variables constant.

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

The positive coefficient suggests that an increase in audit committee expertise is associated with an increase in the financial reporting quality of some commercial banks in Nigeria.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.It can be recommended that, 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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