

AUDIT COMMITTEE ATTRIBUTES AND FINANCIAL REPORTING QUALITY OF LISTED COMMERCIAL BANKS IN NIGERIA.

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Abstract

The study examined effect of audit committee attributes on financial reporting quality of commercial banks listed on the Nigeria stock exchange. It employed ex post facto research design and extracted data from annual reports of a cross section of 14 banks from 2007 to 2022. It employed audit committee attribute variables such as audit committee size, audit committee independence, audit committee meetings and board size while capital adequacy was used to measure financial reporting quality. The data collected were analyzed using panel regression analysis and the result revealed that audit committee size and audit committee independence have positive but insignificant effect on capital adequacy of listed commercial banks in Nigeria while audit committee meetings and board size have negative and insignificant effect on capital adequacy of listed commercial banks in Nigeria. Based on the findings, the study recommends that capital adequacy ratio of commercial banks should be improved by maintaining quality audit members who will be independence, ensure that they are up to six in number and ensure that they hold meeting at least four (4) times in a year. Audit committee members should monitor the liquidity position on a monthly basis and also ensure that the loan to deposit ratio is maintain consistently. However, commercial banks should increase the number of non-executive (independent) directors and also ensure that audit committee is constituted by independent persons, with high level of integrity that can match words with action to improve bank's liquidity.

Keywords: Audit committee characteristics, financial reporting quality, audit committee size, audit committee independence, audit committee meetings, board size.

Introduction

Notably, after the world major financial crisis in 2008, there has been an increase in the need to look up indicators of earnings reliability. The reality facing stakeholders in the corporate world is that financial reporting failure has been on the increase as window dressed accounts generated concerns in the USA leading to the collapse of several companies some of which include Bear Stearns in N/Y City with a share value of \$2.2 billion in 2008, American Southern Bank valued at \$216.6 million in 2009 and MF Global with share value of \$43 billion in 2011 (Dabor & Dabor, 2015). There have been several reported cases such as Cadbury in United Kingdom, Sarbanes Oxley in the United States of America, Day Report in Canada and the Vienot Report in France (Baxter & Cotter, 2009). Idornigie (2010) noted that Nigeria has a multiplicity of codes of corporate governance with distinctive dissimilarities namely; the Security and Exchange Commission (SEC) code of corporate governance of 2003 reviewed in 2011 to guide the operation of public listed companies on the floor of the NSE, the Central Bank of Nigeria (CBN) code of 2006 as well as National Insurance

Commission (NAICOM) code of 2009 and Financial reporting Council (FRC) code of corporate governance, 2018. As specified by the Company and Allied Matter Act (CAMA), 1990 section 359(3) and (4), every public company is required to establish an audit committee that shall consist of equal number of directors and representatives of the shareholders of the company. At least one board member of the committee should be financially literate who should know accounting or financial management while other members should have basic literacy and should be able to read financial statements.

According to CAMA (1990), some of the functions of the audit committee include: (a) ascertain whether the accounting and reporting policies of the company are following legal requirements and agreed ethical practices, (b) review the scope and planning of audit requirements, (c) review the findings on management matters in including to the external auditor and departmental responses thereon, (d) keep under review the effectiveness of the company's system of accounting and internal control (e) make recommendations to the Board concerning the appointment, removal and remuneration of the external auditors of the company (Okolie, 2014).

The inclusion of the audit committee in the corporate governance mechanism raises the expectation of shareholders thereby leading to improved confidence predicated on perceived oversight function over the board. This ensures that the board of directors' carries out their functions in compliance with the globally accepted practice of corporate governance namely, accountability, fairness, responsibility and transparency (Modum, Ugwoke & Onyeonu, 2013).

However, the notable failure of corporate governance in Nigeria throws strong doubt on the effectiveness of audit committees in carrying out their role. Dabor and Dabor (2015) provided evidences of accounting choices in the corridor of audit committee in the banking sector. This is predicated on anecdotal evidence which shows that the entire failed banks in Nigeria in the last decade had wonderful audited financial reports. Most of these banks declared huge profit but went underground few months after these declarations in their financial statements. Accordingly, Sanusi (2012) cited in Dabor and Dabor (2015) opined that one key reason for the crisis in 2008 of the banking was inadequate disclosure and transparency about the true financial position of banks. Various terminologies have been used to describe it such as inadequate disclosure and transparency, smoothing, and creative accounting. The crises that be deviled the financial sector's post-publication of audited financial reports called for the concern of indigenous researchers. Some people have argued that lack of formidable audit committee was responsible for the abysmal reporting earnings quality, others pointed out that the major cause for this crisis was lack of active board (Dabor & Dabor, 2015).

The importance of audit committee in the banking sector is buttressed by the need to provide quality or credibility in external auditors report which is mainly reflected through capital adequacy, earnings quality, risk assets quality and liquidity management in reported annual reports/financial statements (CBN, 2010). The reliability of financial statements reinforces confidence amongst various stakeholders therefore; the manipulations on any of these critical factors would lead to erosion of confidence by customers and the investing public. It is against this backdrop that necessitated the need to undertake this study. The literature on effect of audit committee attributes on financial reporting quality is still inconsistent in the area of findings. Thus there is need to conduct a study on audit committee

characteristics and financial reporting quality and ascertain if there is any significant relationship between them or not.

Objectives of the study

The main objective of the study is to assess the effect of audit committee attributes on the financial reporting quality of listed commercial banks in Nigeria.

Therefore, the specific objectives of the study are to:

- (i) Determine the effect of audit committee size on capital adequacy of listed commercial banks in Nigeria.
- (ii) Examine the effect of audit committee independence on capital adequacy of listed commercial banks in Nigeria.
- (iii) Determine the effect of audit committee meetings on capital adequacy of listed commercial banks in Nigeria.
- (iv) Examine the effect of board size on capital adequacy of listed commercial banks in Nigeria.

Literature Review

Conceptual Framework

Audit committee

The audit committee is an arm of the organization that provides oversight of the financial reporting process, the audit process, the system of internal controls and compliance with laws and regulations. The audit committee can expect to review significant accounting and reporting issues and recent professional and regulatory pronouncement to understand the potential impact on financial statements. Thus, there is no specific scientific precise definition for audit committee as it differs by different professional environment as well as interests. According to the Bank of Britain, an audit committee is defined as a sub-committee of board of directors that is responsible to follow-up financial matters in the company and to assist the board in making financial decisions in which the board may not have the time and experienced expertise to know its details. It is defined by the American Institute of Certified Public Accountants (AICPA) as the process by which management can mitigate and curb illegal behavior used by the senior management of companies.

According to Hamdan et al, (2013), an audit committee is the section of an organization's board of directors that is in charge of monitoring an organization's financial reporting and authenticating its accuracy. Their primary responsibility is to provide an objective and unbiased view of the organizations practices. The purpose of audit committee comprising of members from outside the organization is to make ensure that the audit process is neutral by removing the conflict of interest. An audit committee, therefore, means a board of advisors who are charged with the task of overseeing the financial reporting of a company. According to Investorword.com, an audit committee is made up of a group not less than three individuals responsible for overseeing all internal and external audit functions of a company. In addition, at least one member must be a financial expert or have significant financial expertise. The committee is responsible for selecting and appraising independent and external firms to provide audit functions. They also oversee the process of financial reporting including (but not limited to) supervising internal auditors, monitoring internal controls and

ensuring adequate compliance with Security and Exchange Commission (SEC) and Generally Accepted Accounting Principles (GAAP) standards.

Hussain and Mustafa (2012) defined an audit committee as a group of a minimum of three independent directors with no connection to the company management which is an operating component of the board of directors, with responsibility for internal control and financial reporting oversight. In the corporate world, an audit committee often invites members of management or others to attend committee meetings and even to join in on the deliberations. However, any such invited outside guests cannot be full vote as a members. In most cases, the role of the committee is much more than overseeing financial reporting practices, depending on the sizes of the company such as legal and regulatory compliance, risk management and corporate governance practices.

According to Almalhuf (2009), an audit committee is a selected number of a company's board of directors whose responsibilities include helping auditors remain independent of management. Most audit committees are made up of three to five or sometimes as many as seven directors who are not a part of company management. The audit committee plays a critical role in providing oversight and serving as a check and balance on a company's financial reporting system. The committee provides independent review and oversight of a company's financial reporting processes, internal controls and independent auditors. It provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, the audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices and internal controls, and that the outside auditors, through their review, objectively assess the company's financial reporting practices.

Auditors' independence

Auditor independence has been defined by different authors in different ways. However, there are some concepts about an auditor that needs to be emphasized. These concepts require that an auditor should carry out his work freely and in an objective manner (Olagunju, 2011). In the view of Baker (2005), audit independence is defined as an auditor's unbiased mental attitude in making decisions throughout the audit and financial reporting. The attribute of independence is a very specialized concept for auditors. As a way of maintaining the highest ethical standard for the accounting profession, independence refers to the quality of being free from influence, persuasion or bias (Messier, 2003). The independent auditor is expected to be without bias concerning the client under audit and should appear to be objective to those relying on the results of the audit (Messier 2003).

In the same vein, auditor independence refers to the auditors' ability to maintain an objective and impartial mental attitude throughout the audit (Olagunju, 2011). If an auditor lacks independence, this increases the likelihood of negative perception by the people that the audit or will achieve fewer objectives and therefore less likely to report a discovered breach (Olowookere, 2005). If the auditor is not independent, the incentive to do a high-quality audit is weakened, as misstatements will not be reported even if found (Osuala, 2000). Auditor independence helps to ensure quality audits and contributes to financial statement user reliance in the financial reporting process (Lindberg & Beck, 2004). An auditor as a member of the accountancy profession maintains a professional attitude

characterized with its objectivity and integrity. He must not only be independent but be so at all times as he or she should not be involved in relationships, financial or otherwise which may cast doubt on his integrity.

Concept of financial reporting quality

S.334 (2) of CAMA 2004 as amended, spelt out among others two basic financial statements, namely: the balance sheet (now Statement of Financial Position) and the profit and loss account (now the Statement of Comprehensive Income). Also relevant are; Statement of Changes in Equity and Statement of Cash Flows. It is based on the aforementioned statements that stakeholders are expected to make informed economic decisions. Eriabie and Izedonmi (2016) averred that financial statements can be adequately relied upon by their users where a structure of review and authorization are put in place to enhance the integrity of such a report. The Institute of Chartered Accountants of Nigeria (ICAN) stated that the structure should include a process that ensures the independence and competence of the external auditors and the audit committee that reviews and considers the financial statements, to instil confidence, assures reduction in uncertainty and risk and add value.

The reliability and credibility of financial reports lie squarely on the shoulders of the board of directors and its audit committee whose duty it is to ensure that internal control measures, accounting policies, and external auditors are in place to assure that financial statements are free from fraud and material misstatement. This becomes necessary, given the increasing concern that the quality of financial reports may have diminished over time (Lev & Zarowin. 1999). To ensure high-quality financial reporting, the International Accounting Standards Board (IASB) identified in its framework for the preparation and presentation of financial statements, four principal qualitative characteristics, namely: understandability, relevance, reliability and comparability. Users of financial statements include creditors, suppliers, customers, shareholders, lenders, employees, government agencies to mention a few. These users have varying information needs. The quality of financial statements is of great relevance to the needs of stakeholders for making reliable and informed decisions. Financial reporting embodies two types of information, namely: quantitative and qualitative information. Both types of information are of immense importance to users of financial statements for decision making.

Several definitions have been given to the term, financial reporting quality. For instance, financial reporting quality can be defined as the exact manner by which it shows information as regards business activity as- it relates to its anticipated cash flows to inform shareholders about a company's operations. Tang, Chen and Zhijun (2008) cited in Eriabie and Izedonmi (2016) defined financial reporting quality as the degree to which financial statements provide us with information that is fair and authentic about the financial position and performance of an enterprise. However, a commonly accepted definition is provided by Jonas and Blaurchet (2000), who asserted that the quality of financial reporting is complete and unambiguous information that is riot designed to misinform users. International Accounting Standard Board (2008) opined that the objective of financial reporting is to provide financial information about the reporting entity that is useful to potential equity investors, lenders and other creditors in making decisions ii their capacity as capital providers.

Compliance with the objectives and qualitative attributes of financial reporting information as stated by the International Accounting Standard Board (2006), will no doubt enhance financial reporting quality. The basic qualitative attributes of financial information are relevance and faithful representation (IASB, 2008). This study measured financial reporting quality using discretionary accruals derived from modified-Jones 1991 model bearing in mind that financial reporting comprises both financial and non-financial information. Previous research revealed that Jones Model is frequently used to measure discretionary accruals as a proxy for financial reporting quality (Balsam, Krishnan & Yang, 2003; Chung & Kallapur, 2003; Myers. Myers & Oner, 2003; Jackson, Moldrich & Roebach, 2008; Chen, Lin & Lin, 2008; Johnson, Khurana, & Reynolds, 2002). In a situation where managers use judgment in financial reporting to alter financial reports to mislead stakeholders, thereby negatively affecting the quality of financial reporting, the discretionary accruals model as a measurement tool for financial reporting quality Becomes desirable (Healy &Wahlem, 1999).

Factors affecting audit quality

To make stakeholders have faith in the information contained in financial reporting, some measures of credibility have to be maintained. Some of the factors affecting audit quality include but are not limited to:

i. Financial Literacy of Audit Committee Members: The role of an audit committee in overseeing the accountability of the management covers a wide range of areas. They include the overall process of corporate reporting. Song and Windram (2000) observed that a high degree of financial literacy is necessary for an audit committee to effectively oversee a company's financial control and reporting. This requires the audit committee to have accounting knowledge to acquire an in-depth understanding of financial reporting and improve compliance with regulatory requirements. The need to comprehend the overall financial and non-financial contents of corporate reports is greater considering that listed companies operate as conglomerates with some having complex group structures thereby technically presenting advanced financial reporting contents. Financial literacy, therefore, reduces fraud in corporate financial reporting. Formal recognition of this requirement was recently made in the United States with the passing of the Sarbanes-Oxley Act (2002) which requires each public listed company to disclose whether or not it has a financial expert in the audit committee.

ii. Frequency of audit committee meetings: A more active audit committee is expected to provide an effective monitoring mechanism. Abbott. Park and Parker (2000) argued that the effectiveness of audit committees depends on the extent to which the Committee can resolve issues and problems faced by the company and to improve their monitoring function of company activities.

The more frequent the audit committee meets, the more opportunity it has to discuss current issues faced by the company. Since the level of audit committee activity reflects good governance, it enhances the exercise of oversight function and hence, audit quality (Adeyemi et al., 2012). The Code of Corporate Governance states that the provision of an institutionalized forum encourages the external auditor to raise potentially troublesome issues at a relatively early stage. As a best practice, audit committee meetings should be conducted at least once a year without the presence of executive board members. However, the total number of meetings depends on the company's terms of reference and the complexity of the

company's operations. At least, three or four meetings should be held in addition to other meetings held in response to circumstances that arise during the financial year (Finance Committee on Corporate Governance, 2001). Although the number of meetings may not provide an effective monitoring mechanism, it is noted that an audit committee without any meetings or with a small number of meetings is less likely to be a good monitor (Menon & Williams, 1994).

iii. Multiple directorship of audit committee members: This refers to the number of director positions held by audit committee members (Shivdasani, 1993). Song and Windram (2000) averred that multiple directorships may cause limitations of time and commitment for audit committee members from performing effectively. Audit committee members who held directors' posts of too many companies may have limited time fulfilling their responsibilities. In Malaysia, the importance of the experience of audit committee members gained through director positions in other companies is evident in the Ruzaidah and Takiah (2004) study. They argued that multiple directorships of audit committee members were found to have a significant positive relationship with corporate social reporting practices and corporate performance. This suggests that an audit committee with multiple directorships provides an effective monitoring mechanism.

iv. Independence of audit committee: It is an essential factor for an audit committee to ensure that management is held accountable to shareholders (Blue 'Committee 1999, Cadbury Committee 1992; Treadway Commission 1987). The Code of Corporate Governance states that the majority of audit committee members must be independent and the chairman should be an independent non-executive director. This enhances the effectiveness of monitoring functions. It serves as a reinforcing agent to the independence of internal and external auditors. It is posited that the more independent the audit committee, the higher the degree of oversight and the more likely it is that members act objectively in evaluating the propensity of the company accounting, internal control and reporting practices. This indicates that an independent audit committee can help companies sustain the continuity of business although when they are faced with financial difficulties, they are expected to propose certain action plans to mitigate the problem.

Theoretical Literature

Ethical theory

Ethical theory was propounded by Solomon in the year 1991. According to Tapang et al. (2015), ethics means moral philosophy or practical morality. It is the application of moral principles to guide personal conduct and social interactions. The theory emphasizes the importance of morality on the part of the auditor. It attempts to tell us what is good and what is bad, and its sources include religion, laws, culture and tradition etc and it is perceived by different people in different ways based on their beliefs. The accounting code of ethics defines proper professional conduct in terms of integrity, objectivity and independence -all of which protect the public interest. The underlying reason for a high level of professional conduct by any profession is the need for public confidence in the quality of service by the profession, regardless of the individual providing it. If the user of service does not have the confidence of physicians, judges, engineers or accountants, the ability of those professionals to serve clients and the public effectively is diminished. For the accountant, it is essential for client and external financial statement users to have confidence in the quality of audits and

other services. This is so, as it is not practical for users to evaluate the quality of the performance of most professional services because of their complexity.

For instance, a patient cannot be expected to know whether an operation was properly performed. In the same vein, a financial statement user cannot be expected to evaluate audits performance. Accounting as a socially constructed discipline has no immutable laws and truths (Solomon, 1991). If principles and standards are framed in broad terms and subjected to varying interpretations especially between the preparers and users of the financial statements, this will amount to endless rules for each specific situation. This reduces accounting function to a rule like an exercise without professional judgment (Tapang et al., 2015). The ethic theory is therefore of the opinion that the auditors perform their professional duties and moral obligations effect the; true and fair state of affairs in their reportage of the financial statement and uphold integrity; of the profession (Ugbe, 2010). In this way, the amount and level of opinion to the expressed depends solely on the ethical attitude of the auditor.

Honesty theory

This theory was developed by Becker (1968) and expanded by Allingham and Sandmo (1972). The theory argues that people carry out dishonest acts consciously and deliberately by trading off the expected external benefits and costs of the act. Accordingly, people would consider three aspects as they pass a gas station: the expected amount of cash they stand to gain from robbing place, the probability of being caught in the act, and the magnitude of punishment if caught. Based on these inputs, people reach a decision that maximizes their interests. According to the theory, people are honest or dishonest only to the extent that the planned trade-off favours a particular action.

Notably, the theory stresses that an auditor's honesty is necessary. The result of any audit exercise is the report which the public will rely on as an unbiased and objective statement of the true state of affairs. If the auditor is not honest and is willing for whatever reason to report less than the whole truth, then his work will be of no value (Okolo, 1984). Auditors add to the reliability and quality of financial reporting as they provide to directors and management constructive observations arising from the audit process thereby contributing to the effective operation of business capital markets and the public sectors (Tapanget al., 2015).

Empirical Literature

Kabiru and Usman (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 and audit committee female gender 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.

Namakavarani, Daryaei, Askarany and Askary (2021) examined the relationship between audit committee characteristics and accounting information quality by justifying the role of the internal information environment and political connections under the theocracy state of Iran with syncretic politics. Using panel data of 558 firms from the Tehran Stock Exchange (TSE) for 2011–2016, we rank firms using Technique for Order Preference by Similarity to Ideal Solution (TOPSIS) and entropy method for determination of the weight of evaluating indicators. The firms are positioned into high- to low-level political connections, and two proxies for audit committee characteristics are used: independence of audit committee and financial knowledge. Furthermore, three proxies are used for an internal information environment: earning announcement speed, the accuracy of earning forecasting and lack of financial restatements. Our findings show that there is a significant and positive relationship between the audit committee and financial information quality characteristics in high-level political connections, as well as between financial knowledge and financial information quality.

Efuntade, Alli-Momoh and Efuntade (2021) examined audit committee characteristics on audit quality in Nigeria for 10 years spanning from 2009-2018. Specifically, their study assessed the effect of audit committee size on audit quality in the oil and gas sector and examined the effect of audit committee meetings on audit quality in the oil and gas sector. The study adopted the expo-facto research design and the population covered all the 12 listed Oil and Gas sectors; out of which, 10 firms were selected through a random sampling technique. The study used secondary data, sourced from the published financial reports of the sampled firms covering the period of 2009-2018. Through logistic regression, it was discovered that audit committee size exerted a positive significant effect on audit quality of firms in the oil and gas sector in Nigeria and that audit committee meeting exerts a positive but insignificant effect on audit quality of firms in the oil and gas sector in Nigeria. It was concluded that audit committee has a statistically significant effect on audit quality in Nigeria. Thus, it was recommended that emphasis and focus should be placed on the size of the audit committee to improve audit quality and that modalities surrounding the meetings of the committee members should be revisited. Also, adequate supervision and monitoring should be ensured in every meeting of the committee members.

Azam and Wang (2021) examined the influence of the characteristics of the audit committee on Palestinian firms' value. The research explores precisely the effect on the Audit Committee characteristics' efficiency, namely, independence, expertise, evaluating the relationship among dependent and independent variables. Secondary data collected from a list of companies were registered in the Palestine Stock Exchange from 2011 to 2018. Individual variables considered are the independence and expertise of the audit committee, whereas the ROA is employed as the dependent variable as an indicator of a firm's value. The results showed that the Audit Committee's independence and expertise are substantially positively with ROA. The study concluded that the audit committee's characteristics are enhancing firm performance. The implications of this study's findings can be used by decisions and policymakers, the firm's management, and other stockholders' interests to create reliable ties between agents and the principals.

Machora and Oluoch (2021) examined the effect of audit committee characteristics on financial performance among deposit taking SACCOs in Kenya. This study was supported by the following specific objectives: to determine the effect of size of audit committee, the composition of audit committee, and the independence of the audit committee. This research adopted a descriptive research design. This study target population was 166 employees working in deposit taking SACCOs. The study has shown that audit committee experience is positively associated with firm performance. Descriptive statistics and inferential statistics were used. The findings established that independent auditors have a negative influence on firm performance. It was concluded that the size of the audit committee should be embraced so as to have expertise in improving financial performance of SACCOS.

Gabriela (2020) examined the impact of audit committee characteristics on firm performance using evidence from non-financial firms listed on London Stock Exchange in UK from 2011 to 2015. The main findings of his study suggest that there is a significant positive relationship between the audit committee size, frequency of meetings and its financial performance. They also found audit committee independence to be negatively correlated with firm performance.

Salisu and Nur Ashikin (2020) analysed the impact of audit committee attributes on the performance of finance companies in Malaysia in both period before and after the Malaysian Code on Corporate Governance (MCCG) was issued. The period covered 5years from 2007 to 2011. Their findings suggest a significant positive relationship between independent audit committee members and profitability while dual membership of directors on audit and nomination committee is significant and negatively related to profitability.

Ogaluzor and John (2020) determined whether the quality of financial reporting in consumer goods manufacturing companies quoted in the Nigeria stock exchange is affected by the Characteristics of Audit Committee. Specifically, the study considered the relationship between effect of Audit Committee's independence on value relevance of accounting information on earnings management. It also considered the effect of audit size on value relevance of accounting information on earnings management. Data was collected from 15 listed consumer goods manufacturing companies. Secondary data was extracted over eleven year-period covering from 2006 to 2016. A balanced panel data analytical approach was used since the data points consists of equal time series for each of the cross-section of the sampled firms. Results from the analysis shows that: there is a negative but insignificant relationship between board independence and value relevance of earnings, there is a significant positive relationship between audit committee size and accounting value relevance of earnings, there is a significant positive relationship between board independence and earnings management and audit committee size is observed to have a negative relationship with earnings management, implying that larger audit committee size constrains earning management. The study therefore, concludes that there is a significant relationship between audit committee characteristics and quality of financial reporting of listed consumer goods manufacturing companies. The researcher recommended that there is need for Audit Committee to be highly independent.

Oyedokun, Ojo, and Fodio (2020) examined the association between audit committee characteristics and financial reporting quality of listed consumer goods firms in Nigeria. This study adopts correlational research design. The population of the study is all the twenty-one (21) consumer goods companies listed on the floor of the Nigerian Stock exchange. Data

utilized for the study are collected from the annual reports of companies from 2013 to 2018. The study employs multiple regression techniques for the purpose of data analysis and the result show that audit committee expertise and frequency of meeting have positive and significant effect on financial reporting quality while audit committee size and audit committee gender have no significant relationship on the financial reporting quality.

Daferighe and George (2020) examined the impact of audit firm attributes on the financial reporting quality of quoted manufacturing firms in Nigeria for the period of 2011 to 2015. Ex-post facto research design was adopted in the study. Data were obtained from the published annual reports and accounts, notes to the financial statements of the sixteen firms that represent the sample of the study. Multiple regression analysis was employed in analyzing the data and testing the stated hypotheses. The results of the findings showed that auditor fees have significant influence on the financial reporting quality of quoted manufacturing firms in Nigeria. However, it was discovered that audit firm size and audit delay have insignificant impact on the financial reporting quality of manufacturing firms in Nigeria.

Ashari and Krismiaji (2020) investigated the effect of audit committee characteristics, which includes independence (ACIN), size (ACSIZE), competence (ACCO), and frequency of meetings (ACMT) on the financial performance (PERF) of manufacturing firms listed on the Indonesian Stock Exchange for the year of 2016 and 2017. PERF is measured and proxy with the return on assets (ROA); ACIN is measured by the percentage of members from outside the company; ACCO is measured using percentage of audit committee members who have accounting and finance educational background; and ACMT is measured using the number of audit committee meetings in 2016 and 2017. This study uses a sample of 466 observations of publicly listed companies on the Indonesian Stock Exchange for the fiscal year that ends on December 31, 2016 through 2017 which are retrieved for 660 listed companies' population. The study finds that all of the characteristics of audit committee positively affect the company's performance. The research also uses three control variables, which are the quality of auditors (BIG4), financial leverage (LEV) and company size (SIZE). BIG4 and LEV positively affect the company's financial performance, while the financial performance of the company is negatively affected by size.

METHODOLOGY

Research Design

The study adopted ex post facto research design by using a combination of cross-sectional and time series data from annual reports of banks listed on Nigerian Stock Exchange.

Population of the study

The population of the study consisted of all commercial banks listed on the floor of the Nigerian Stock Exchange (NSE). According to the Nigeria Stock Exchange Factbook (2021), 14 commercial banks are listed on the floor.

Sampling Size

In view of this, ten (10) commercial banks listed on the floor of Nigeria Stock Exchange were selected amongst the commercial banks listed on the Nigeria Stock Exchange. The 10 listed commercial banks represents the sample size for this study, for sixteen (16) years period spanning from 2007-2022.

Method of data collection

As corporate governance, audit committee variables are mainly secondary data, they were therefore obtained from the annual reports of the sampled deposit money banks from 2007 to 2022.

Method of data analysis

The data extracted from various annual reports involved cross section of listed commercial banks over a period from 2007-2022. The purpose is to establish the relationship of audit committee characteristics on credibility of auditors reports during the post consolidation period of the banking sector. The study therefore used panel data regression analysis which involves the determination of unit root test, fixed effect regression, random effect regression, Hausman test and Breusch Pagan test.

Model Specification

$CAR = f(ACSZ, ACID, ACMT, BDSZ)$

In applying the stochastic form, the model is formulated as follows;

$CAR_{it} = \beta_0 + \beta_1 ACSZ_{it} + \beta_2 ACID_{it} + \beta_3 ACMT_{it} + \beta_4 BDSZ_{it} + U_{it}$

Where:

CAR = Capital Adequacy Ratio

ACSZ = Audit committee size

ACID = Audit committee independent

ACMT = Audit committee meeting

BDSZ = Board size

β_0 = Intercept term

β_1 - β_5 = Slope coefficients

U = Residual term

I = Cross section of banks

T = Time period

4.0 DATA PRESENTATION AND ANALYSIS

Data Presentation

This section of the chapter presents the data extracted from the financial statement of the ten (10) listed deposit money banks selected for the study (2007-2022).

Effect of audit committee characteristics on capital adequacy ratio of listed deposit money banks in Nigeria.

Table 4.1: Model summary

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	25.35381	20.44710	1.239971	0.2169
ACSZ	0.142762	3.105430	0.045972	0.9634
ACID	3.901351	13.68004	0.285186	0.7759
ACMT	-2.531428	2.063038	-1.227039	0.2217
BDSZ	-0.096470	0.172866	-0.558063	0.5776
R-squared	0.013361	Mean dependent var		17.43975
Adjusted R-squared	-0.012101	S.D. dependent var		10.03695
S.E. of regression	10.09749	Sum squared resid		15803.69
F-statistic	0.524739	Durbin-Watson stat		0.902739
Prob(F-statistic)	0.717691			

Source: E-View Output Appendix II

Table 4.1, presents the regression result between ACSZ, ACID, ACMT, BDSZ and CAR. From the model summary table above, the following information can be distilled. The R^2 which measure the level of variation of the dependent variable caused by the independent variables stood at 0.013361. The R^2 otherwise known as the coefficient of determination shows the percentage of the total variation of the dependent variable (CAR) that can be explained by the independent or explanatory variables (ACSZ, ACID, ACMT, & BDSZ). Thus the R^2 value of approximately 0.013361 indicates that 1.34% of the variation in the CAR of listed deposit money banks can be explained by a variation in the audit committee characteristics while the remaining 98.7% (i.e. $100 - R^2$) could be accounted by other factors not included in this model like the banks corporate governance mechanism. The adjusted R^2 of approximately -0.012 indicates that if other factors are considered in the model, this result will deviate from it by only 0.0014 (i.e. $0.0134 - 0.012$). This result shows that there will be a further deviation of the variation caused by the independent factors to be included by 0.14%.

The regression result as presented in table 4.5 above to determine the relationship between ACSZ, ACID, ACMT, BDSZ and CAR shows that when all the independent variables are held stationary; the CAR variable is estimated at 25.35381. This simply implies that when all independent variables are held constant, there will be a 25.35381 unit increase in the CAR of listed deposit money banks occasioned by factors not incorporated in this study. Thus, a unit increase in ACSZ will lead to an increase in CAR by 0.14 units. Also, a unit increase in ACID will lead to an increase in CAR by 3.90 units. Furthermore, a unit increase in ACMT will lead to decrease in CAR by 2.53 units. Also, a unit increase in BDSZ will lead to a decrease in CAR by 0.096 units.

Finally, the result shows that there is an insignificant variation of Fisher's statistics (0.524739) at 0.717691 which means the model as a whole is statistically insignificant at an autocorrelation level of 0.902739 (Durbin-Watson).

Audit committee size has T-value of 0.045972 with the P-value of 0.9634 which is greater than 5% (0.05) which implies that audit committee size has no significant effect on capital adequacy ratio of listed deposit money banks in Nigeria.

Audit committee independence has T-value of 0.285186 with the P-value of 0.7759 which is greater than 5% (0.05) which implies that audit committee independence has no significant effect on capital adequacy ratio of listed deposit money banks in Nigeria.

Audit committee meetings has T-value of -1.227039 with the P-value of 0.2217 which is greater than 5% (0.05) which implies that audit committee meetings has no significant effect on capital adequacy ratio of listed deposit money banks in Nigeria.

Board size has T-value of -0.558063 with the P-value of 0.5776 which is greater than 5% (0.05) which implies that audit committee meetings has no significant effect on capital adequacy ratio of listed deposit money banks in Nigeria.

Effect of audit committee characteristics (ACSZ, ACID, ACMT, & BDSZ) on capital adequacy ratio of listed deposit money banks in Nigeria.

The findings revealed that audit committee characteristics (ACSZ, ACID, ACMT, & BDSZ) have no significant effect on capital adequacy ratio of listed deposit money banks in Nigeria.

The result is consistent to the result of Kabiru and Usman (2021) that investigated the effect of audit committee characteristics on the financial reporting quality of Deposit Money Banks (DMBs) in Nigeria. The result revealed that audit committee characteristics have no significant effect on the financial reporting quality of DMBs in Nigeria. On the contrary, Namakavarani, Daryaei, Askarany and Askary (2021) examined the relationship between audit committee characteristics and accounting information quality by justifying the role of the internal information environment and political connections under the theocracy state of Iran with syncretic politics. Their findings show that there is a significant and positive relationship between the audit committee and financial information quality characteristics in high-level political connections, as well as between financial knowledge and financial information quality.

Conclusion

The study conducted on the effect of audit committee attributes on financial performance of listed commercial banks in Nigeria. The attributes of audit committee includes the independence of audit committee, the size of audit committee and the number of meetings held by audit committee members. These audit committee attributes can affect the level of performance of commercial banks in terms of their return on asset, return on equity, earnings per share and profit after tax. The essence of audit committee is to ensure true and fair view of information in the financial statement as well as detection of fraud that can hamper the performance of commercial banks. Based on the result of the analysis carried out, the study concludes that audit committee attributes can actually affect the performance of commercial banks especially in the area of earnings per share and profit after tax.

The study engaged OLS regression analysis. The OLS regression revealed results that have implications on the banking sector, regulatory authorities, professional bodies and researchers. The findings revealed that audit committee characteristics proxies have varied individual relationship with each of the dependent variables some of which are contrary to our a priori expectation. The study hence postulates that the individual characteristics of audit committee are not mutually exclusive as the findings proved that the joint variables of audit committee characteristics significant affect earnings quality. This implies that an effective and efficient audit committee should comprise members inclusive of those with knowledge in accounting and finance, and that there should be regular meetings without interference from the board of directors, to execute their functions. It was observed that an efficient and effective audit committee enhances the quality of earnings in banks but that there are other variables which account for the total variation of earnings quality in the sampled banks of up to 86%. Other variables that could influence earnings quality might be the existence of a dynamic corporate governance structure which promotes transparency, accountability, fairness and socially responsive business environment.

However, the study established that audit committee of the sampled banks are effective and efficient in a manner that ensure healthy long term solvency. These variables amongst others may be efficient and effective corporate governance structure, efficient risk assets management unit, adherence to bank's credit guidelines, character of the borrowers, nature of the borrowers business, cost of funds and the prevailing economic conditions.

It was also established that audit committee characteristics have insignificant effect on earnings quality, capital adequacy of banks in Nigeria while that on risk assets ratio and liquidity ratio were significant.

Recommendations

Based on the findings of the study, the following recommendations are made.

- (i) Capital adequacy ratio of commercial banks should be improved by maintaining quality audit members who will be independence, ensure that they are up to six in number and ensure that they hold meeting at least four (4) times in a year.
- (ii) Audit committee members should monitor the liquidity position on a monthly basis and also ensure that the loan to deposit ratio is maintain consistently. However, commercial banks should increase the number of non-executive (independent) directors and also ensure that audit committee is constituted by independent persons, with high level of integrity that can match words with action to improve bank's liquidity.

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