Effect of Audit Committee Qualities on Financial Reporting of Listed Companies in Nigeria: A Perspective Study

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Abstract- The purpose of this study is to evaluate the effect of Audit Committee Qualities on Financial Reporting of listed companies in Nigeria. The study used structured questionnaires administered to a sample of 145 administrative staff of selectedlisted companies located in Rivers State, Nigeria to elicit the required data for hypothesis testing. The statistical technique employed in testing and analysing the hypothesis was the Ordinary Least Square regression analysis to accurately establish the effect of the dependent and independent variables with the aid of version 17.0 of the Statistical Package for Social Sciences (SPSS) computer software. Results of the analyses suggested that audit committee independence, audit committee members' qualification and audit committee monitoring function have a significant and positive effect on financial reporting of listed firms in Nigeria. The study provides evidence to shareholders that qualification of audit committee members should be considered seriously during their appointment to improving the quality of financial reporting and achieving audit committee members' independence. Moreover, the result highlights the need for companies to organise training for audit committee members in the areas where in-depth knowledge is required especially on the application of new accounting standards which will aid financial reporting process of the company. The paper creates awareness on the need for identifying monitoring functions that are vulnerable to manipulation for critical analysis and intensive review in those areas.

Index Terms- Audit committee quality, financial reporting, Audit committee members Qualification, Audit committee monitoring, Audit independence

I. Introduction

Financial statements convey both qualitative and quantitative information to assist users in making an informed economic decision. Credible and high-quality financial statements that are free from any material misstatements or misrepresentation enhance users' decision -making quality. An audit committee is required to improve the quality of financial statementsrequired. An Audit Committee is an operating committee of the board of directors charged with the responsibility of overseeing the financial reporting disclosure of an entity and helping to set an ethical tone at the top level of an organisation (Bahreini, 2013). The Audit Committee ensures that the directors judiciously follow accounting regulations and laid down accounting principles and practices in preparing financial statements. Hence, section 359 (3 and 4) of the Companies and Allied Matters Act (CAMA), 2004 as amended, made it a requirement for every listed company on the Nigeria Stock Exchange (NSE) to establish an audit committee to improve their financial reporting (Enofe, Aronnwam&Abadua, 2013).

The United States (US) Congress passed the Sarbanes - Oxley Act (SOX) also known as the corporate oversight Bill in 2002 as a result of the publication of series of well – publicised accounting scandals around the world. That Bill is now widely accepted by most countries including Nigeria. The New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotations (NASDAQ) also adopted the new corporate governance rules for listed companies. The Securities and Exchange Commission (SEC) approved them in 2003 (Madawaki&Amran, 2013). Both the new corporate governance rules of the NYSE and NASDAQ emphasised greater independence and effectiveness of the audit committees and board of directors (Person, 2005).The incidence that led to the collapse of Enron made the public call on members of the audit committee to improve the performance of their functions (Phuangthie&Phaprnke, 2010).

In Nigeria, there are also series of well-publicised cases of accounting improprieties. The state of financial reporting oversight provided by corporate audit committees was a source of concern to the Securities and Exchange Commission (SEC). The SEC, therefore, provided rules and standards that addressed the issue of the composition of audit committees and their activities. The SEC took this action with the hope that norms and standards provided would help to enhance the quality of financial reporting and discourage manipulation. SEC requirements complied with those of SAS 61 which requires a letter from the audit committee explaining the quality of the accounting principles applied and an assessment of their effect on the company's financial statements (Nashwa, 2003). Despite the responsibility given to audit committee and the inclusion of audit committee report in the annual report, companies still experience material accounting misstatement and misrepresentation which most at times eventually lead to corporate failure.

The most prominent in recent time in Nigeria is that of Oceanic Bank Plc. The bank overstated its gross earnings in the 2008 annual report. Instead of reporting a loss incurred it reported profit and equally understated its non-performing loans. This overstatement led to the restatement of 2008, 2009 and the first quarter of 2010 reports.The Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC) conducted a special examination to assess the health of the Bank.

The action was taken to protect depositors' funds as part of its policy of safeguarding against the collapse of money (depletion of funds deposited) in Centre Banks. On August 14, 2009, the Central Bank selected a new management team which did not involve the Bank's executive management. The most pressing task for the new management was to address the reporting, governance and control deficiencies that endangered to submerge the Bank.They found out that there were internal control weaknesses, governance weakness and risk management lapses. According to Adewale (2010), the review of 2008 results was extensively, and that necessitated the restatement of the 2008 accounts. The restatement aimed at giving an accurate and fair view of the Bank's position as at 31st December 2008. The thoroughness of the reviews gives people the confidence that the audited restated accounts sufficiently addressed the misrepresentations report of 2008. The restatement revealed that after-tax profit previously reported asN 9.6bn resulted into a loss of N 234.6bn; Non Performing Loans previously reported as N54.5bn was reinstated as N 443.3bn (Adewale, 2010). This evidence shows that audit committee of the bank did not carry out its responsibilities.

Therefore, this paper examines the effect of audit committee qualities on financial reporting in Nigeria: employees' perception. The proxies for audit committee qualities are audit committee independence, audit committee members' qualification, and audit committee monitoring function.

Studies have been carried out by several authors on the audit committee. Most of these researchers based their study on the effect of audit committee report and audit committee size, composition, expertise and audit committee meeting on financial reporting quality(Okoye & Cletus, 2010; Owolabi&Ogbechia, 2010, Madawaki&Amran, 2013). However, there is limited evidence on the effect of audit committee monitoring function on financial reporting via employees' perception in Nigeria. This study is carried out to close the identified knowledge and make some contributions to knowledge.

II. Literature Review and Development of Hypotheses

2.1. Literature Review

2.1.1. Audit Committee and Financial Reporting

According to the SOX Act 2002, an Audit Committee refers to:

"A committee (or equivalent body) established by and/or amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer; and if no such committee exists with respect to an issuer, the entire board of directors of the issuer"
(Sarbanes-Oxley Act of 2002).

The original concept of Audit Committees was as a means of ensuring the independence and effectiveness of the external auditor (Nnadi, 1999). As a result of corporate governance problems, their responsibilities have expanded to include working with the internal auditors and management to ensure proper conduct of corporate affairs, enhance corporate accountability and strengthen the financial reporting processes and practices of an entity (Ayinde, 2002). Hence the Audit Committee boosts an investor confidence in the operations of an entity with governance practice (PricewaterhouseCoopers, 1997). Audit Committee members are expected to have knowledge and experience of business risk, oversight performance, financial situations and accounting policies that will help in monitoring the activities of an entity (Enofe, Aronnwam&Abadua, 2013). Therefore, Audit Committees are valuable and rare resources of any entity and entities with higher resources and capabilities in the Audit Committee tend to gain reputation in the long run.Indeed, the existence of an Audit Committee in a body would provide a critical oversight of the entity's financial reporting and auditing processes (Walker, 2004).

Financial reporting is the provision of financial information about an entity to external users that is valuable to them in making economic decisions and for assessing the effectiveness of the entity's management. Disclosure and transparency in the financial statements are vital factors of high-quality reporting ((Enofe, Aronnwam&Abadua, 2013).Financial statements are the result of accounting transactions or economic dealings aimed at providing qualitative and quantitative financial information to appraise and forecast the performance of the entity to permit informed judgment and decision making (Ilaboya, 2005).The process of ensuring reliable financial reporting is one of the essential functions of the Audit Committee (Rezaee& Farmer, 1994). While the Audit Committee is not involved in the daily operations of an entity, there is pressure from the oversight position for the Audit Committee to get more involved in ensuring the integrity of the financial reporting process. Efficient Audit Committee processes for overseeing financial reporting are studied by Turley & Zaman (2007); Cohen, Krishnamoorthy& Wright (2007); Gendron, Bedard& Gosselin (2004); Smith (2003); Spira (2002). These studies, in general, have justified the expectation from the Audit Committees for review of all financial statements for approval by the Board of Directors before public circulation to ensure their objectiveness, accuracy, and timeliness. Other expectations include a consideration of all existing accounting policies, and their effect on the financial statements, any changes in accounting policies including the likely impact of any contemplated changes, appraisal of the major management estimates, and evaluate the adequacy of financial statement disclosures.

2.1.2. Audit Committee in the Nigerian Environment

In Nigerian, SEC, under the provisions of the Companies and Allied Matters Act (CAMA 2004: Section 359, subsection 3 and 4), requires all listed companies on the Nigerian Stock Exchange (NSE) to establish audit committees (Madawaki and Amran, 2013). The full acceptance of Audit Committees suggests their importance as part of entity accountability and transparency, where Audit Committees are expected to serve as the watchdog of stakeholders interest (Blue Ribbon Committee, 1999). The audit committee is made up of an equal number of directors and shareholders. This composition enhances its efficiency in checking the powers of the executive directors, with particular reference to the accounting and financial reporting functions (Enofe, Aronnwan and Abadua, 2013). It also enhances their reporting function and independence as it allows them to report to the executive Directors (Atu, Atu, Atu&Abusomwan, 2017).

2.1.3. Theoretical Framework

Audit Committee acts not only as a link between board and management but also tosafeguardthe interest of stakeholders. Some of the financial theories cover the concern for Audit Committee effectiveness in exercising these functions. The most directly related are these two popular theories, agency theory and stakeholders' theory. Effective Audit Committees contribute more in these two theories,

2.1.3a. Agency Theory

Agency relationship emerged as a result of business expansion and complexities, and the separation of ownership and management. It is a contractual process whereby owners delegate some of their duties, responsibilities andauthoritiesto a team consisting of expert members(s) and expect them to display their expertise in the best interest of entity's operational success and achievement of its objectives.

Hence, conflict of interests between owners and management emerges and grows. However, for accountability purpose, management decisions and actions need to be monitored. Close monitoring will be achievable when owners can actively partake in this control process. On the other hand, because of high-cost involvement and in some cases due to lack of expertise and knowledge, they cannot be actively involved in this process. Nevertheless, the board has to set monitoring apparatus because of their oversight responsibilities dedicated to shareholders (Johnson, Daily &Ellstrand, 1996). Dezoort, Hermanson, Archambeault& Reed (2002) posited that the board has to assume the oversight task of monitoring managers, approving entity's strategies and evaluating control structure to deal with the problem emanating from agency relationship. The board usually hires experts and knowledgeable group of individuals to oversee management activities on its behalf. Audit Committee is such a subcommittee under corporate governance framework to which the board delegates some of its oversight functions and responsibilities. Chen, Duh & Shiue (2008) carried out a study on non-US companies trading shares in US market and argued that an effective Audit Committee can resolve or reduce agency problems of foreign entities no matter the corporate governance model adopted in the entity's home country. Dey (2008) found out that the level and intensity of agency problem is less in those entities where Audit Committees are more efficient and effective. Watts & Zimmerman (1996) explained managerial incentives for voluntary financial disclosure. Sound financial reporting practices ensure more administrative disclosure of financial information. As a result, the system of financial reporting has a role in resolving agency problem. As managers usually do not have regular interaction with shareholders, a distrust might exist due to distance and communication gap. Therefore, Audit committee can act as a bridge in such gaps. Chen, Duh & Shiue (2008) accurately and vividly mentioned that Audit Committee could help to maintain contact between management and shareholders.

2.1.3b. Stakeholders' Theory

A stakeholder is any individual or group who can affect or is affected by the achievement of the organisation's objectives (Mohiuddin&Karbbari, 2010). Thus, stakeholders include shareholders, employees, suppliers, customers, creditors, communities in the vicinity of the entity's operations and the general public (including government). Most extreme proponents of this theory suggest that stakeholders include environment and future generations. Stakeholders' theory represents that the entity is a separate organisational entity and it is connected to different parties in achieving a broad range of purposes (Donaldson & Preston, 1995). The theory highlights interests of diverse groups and argues on the likelihood of favouring one group's interest over that of the other (Jones & Wicks, 1999). Donaldson & Preston (1995) pointed out that managers are responsible for deploying their wise decisions and best efforts in obtaining benefits for all stakeholders. The board cannot overlook its responsibilities in protecting stakeholders' interest (Wang & Dudley, 1992). Hillman, Keim&Luce (2001) found that conclusion of interested parties in the board merely improves their relation and performance. An active audit committee ensures better corporate governance practice in a firm that ultimately leads to the overall welfare of stakeholders. The definition of active audit committee given by Dezoort, Hermanson&Archambeault (2002) emphasised the stakeholders' interest. They argued that the ultimate goal of the audit committee is to protect stakeholders' interest and welfare.

Therefore, from the two theories considered above, stakeholders' approach recognises the benefit of the stakeholders as a whole as opposed to agency theory which considers only the interest of the shareholders. An active audit committee ensures better corporate governance practices in companies through financial reporting to protect the overall interest of stakeholders. The research anchored this work the stakeholders' theory.

2.2 Development of Hypotheses

2.2.1. Audit Committee Qualification

CAMA 2004 did not state the qualifications required of an audit committee member. This flaw in the law has led to less confidence in the committee report based on the fact that some of the members may have little or no idea about the company's financial statement or company's accounting policy. But with the nature of the responsibilities the Audit Committee is charged with, it is evident that the members of the committee would have to possess the apt qualifications to be able to function effectively. A high level of financial literacy is essential for an Audit Committee to supervise a company's financial control and to report adequately. This service requires the Audit Committee to have accounting knowledge to be able to understand the financial report and ensure compliance with regulatory requirements. The need to comprehend, in general, the financial and non-financial contents of corporate reports is greater bearing in mind that listed companies are operating as conglomerates with some having complex group structures and consequently, presenting technically sophisticated financial reporting contents. Financial literacy abridged fraud in corporate financial reporting (Song &Windram, 2000). Kenneth (2012) was also of the same view with Song &Windramby arguing that for the proper discharge of responsibilities, all members of the committee should be financially knowledgeable and they should also have an understanding of the industry to which the company belongs. At least one member should have financial proficiency and professional qualification of the recognised professional accounting bodies. When the Audit Committee carries out their tasks correctly, the result is a credible financial statement which is the basis for good corporate governance and corporate failures will be avoided. The passing of the Sarbanes-Oxley Act (2002) in the US which requires each public listed company to reveal whether or not it has a financial expert on the Audit Committee formal acknowledges this requirement.

H1. Audit committee members' qualification does not have a significant effect on financial reporting of entities.

2.2.2. Audit Committee Independence

An indispensable attribute of an effective audit committee is independence from management. By providing an independent source of counsel to the board, Audit Committees play a key character in an organisation's governance configuration. It is a most important practice for the preponderance of its members to be independent of the entity to ensure the Audit Committee's independence. An independent audit committee member is a person who is not employed by or providing any services to, the organisation beyond his or her duties as a committee member.

Independence of Audit Committee helps to ensure that management is transparent and will be held answerable to stakeholders (Treadway Commission, 1987; Cadbury Committee, 1992; Blue Ribbon Committee, 1999). The expectation is that independent Audit Committee members will be more objective and less likely to ignore possible deficiencies in the misappropriation and manipulation of financial reporting. Abbott, Parker & Peters, (2004) found evidence to sustain this interpretation within the perspective of financial reporting misstatements. After the passage of SOX in 2002, Audit Committees in the USA must consist exclusively of independent members to pre-approve audit and non-audit services and to set procedures for treatment ofcomplaints connected to accounting and auditing issues. Beasley, Carcello, Hermanson, & Neal (2000) found that Audit Committee independence is considerably related to financial reporting quality since financial statements fraud is more likely to occur in entities with less Audit Committee independence.

The unique attribute of an Audit Committee is its independence. An Audit Committee is independent of the activities of management and this independence assists in ensuring that an Audit Committee acts in an objective, neutral manner free from any conflict of interest or inherent bias or undue external pressure. Where Audit Committee members are managers of the entity who are appointed by, and accountable to, the Chief Executive, the committee cannot be said to be entirely independent of management. The paper, therefore, states that,

H2. Audit committee independence does not have a significant effect on financial reporting of entities.

2.2.3. Audit Committee Monitoring Function

The most efficient audit Committees are not only critically aware of their responsibilities but also completely understand and clinch to them, and recognise what is essential to fulfilling them effectively. The work of Audit Committee has been evolving in response to changes in the business milieu and first practices. The monitoring function of the Audit Committee ensures that there is active and collaborative involvement of all its principal champions. They include board of directors, independent external auditors, internal auditors and management and ensuring that this alliance occurs economically, effectively and efficiently which is essential to the success of an Audit Committee (KPMG, 2014).

The Audit Committee is in charge of supervision and monitoring the financial reporting process, including the risks and controls in that process. Internal controls, nonetheless, encompasses not only financial but also compliance with laws, regulations and operational controls. The Audit Committee should monitor the reliability of the financial statements and any other formal reports relating to the company's financial performance before its publication. As part of this appraisal, the Audit Committee ought to ensure that its members are made conscious of accounting policy and disclosure issues and that this information is communicated to them time enough to facilitate suitable action to be taken as desirable. The Audit Committee should inquire of management and auditors concerning recommended audit adjustments and disclosure changes, those made by the administration and not by management; the accounting principles and the significant accounting policies adopted by the management; unusual dealings; and accounting provisions and estimates incorporated in the financial statements. An accurate understanding of all these factors is integral to meet its monitoring functions/responsibilities (KPMG, 2014). Hence

H3. Audit committee monitoring service does not have a significant effect on financial reporting of entities.

III. Methodology

The study adopted survey design and collection of primary data was through the administration of 5-point Likert scale questionnaire. The study judgmentally chose 5 out of the 167 companies listed in the Nigerian Stock Exchange and also concentrated in Rivers State, Nigeria. The population of this study is the first set of listed companies established in Rivers State. The researchers chose these companies because of their geographical locations which make them readily available since they are situated at the hub of the city.The study also considered convenience as the researchers were able to distribute and collect questionnaire without much delay from respondents. These companies have a total population 233 administrative staff as follows: First Bank Plc (80), Total Nigeria Plc (69), John Holt Plc (24), First Aluminum Plc (12) and Flour Mills Nigeria Plc (48) in Rivers State. The sample size of this study was 145 (see appendix) staff. The study used Krejcie and Morgan (1970) formula for sample size determination to derive the figure (see appendix). The allocation of the total sample size to the individual companies under survey was done by dividing the population of business by the total population multiplied by the total sample size.

To test for the relevance of the hypotheses regarding the effect of audit committee qualities on financial reporting, the researchers adapted the Regression Model. Hence, the studyresearch involves an empirical analysis of the dependent and independent variables. Further insight on the relevance of each of the variables is presented as follows; the dependent variable for this study is financial reporting, while the independent variables are the independence of audit committee, qualification of audit committee members and monitoring function of the audit committee. Therefore, ordinary least squares regression analysis was the test statistic used to verify the hypotheses.

FR = f(ACI, ACQ, ACM)

Where, FR = Financial Reporting

ACI = Audit Committee Independence

ACQ = Audit Committee Members' Qualification

ACM = Audit Committee Monitoring Function
Hence, FR is the dependent variable, while ACI, ACQ and ACM are the independent variables.

IV. Results and Discussions

H1: Audit Committee independence does not have a significant effect on financial reporting.

Table 4.1.1 Descriptive Statistics

	Mean	Std. Deviation	N
Financial reporting	2.2500	1.01889	258
Audit Committee Independence	1.7500	1.09892	258

Table 4.1.2 Correlations

		Financial reporting	Audit Committee Independence
Pearson Correlation	Financial reporting	1.000	.844
	Audit Committee Independence	.844	1.000
Sig. (1-tailed)	Financial reporting		.000
	Audit Committee Independence	.000	
N	Financial reporting	258	258
	Audit Committee Independence	258	258

Table 4.1.3 Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.844[a]	.712	.707	.55130	.309

a. Predictors: (Constant), Audit Committee Independence
b. Dependent Variable: Financial Reporting

Table 4.1.4 AVOVA[b]

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	43.622	1	43.622	143.525	.000[a]
Residual	17.628	256	.304		
Total	61.250	257			

a. Predictors: (Constant), Audit Committee Independence
b. Dependent Variable: Financial Reporting

Table 4.1.5 Coefficients[a]

Model	Unstandardized Coefficients		Stabdardized Coefficients	T	Sig.
	B	Std Error	Beta		
1 (Constant)	.881	.135		6.500	.000
Audit Committee Independence	.782	.065	.884	11.980	.000

a. Dependent Variable: Financial Reporting
Source: Researchers computations

The regression sum of squares (43.622) is greater than the residual sum of squares (17.628), which indicates that the model explained more of the variation in the dependent variable. The significance value of the F statistics (0.000) is less than 0.05, which means that the explained variation by the model is not due to chance.The correlation coefficient R, which has a value of 0.844, indicates that there is a significant effect of audit committee independence on financial reporting. R square, the coefficient of determination, shows that the model explained 71.2% of the variation in financial reporting.With the linear regression model, the error of estimate is low, with a value of about 0.55130. The Durbin Watson statistics of 0.309, which is not more than 2, indicates there is no autocorrelation.Audit committee independence coefficient of 0.844 indicates a significant effect of audit committee independence on financial reporting, which is statistically significant (with t = 6.500). Therefore, the study rejected the null hypothesis and accepted the alternative hypothesis. Thus audit committee independence has a significant effect on financial reporting.

H2: Audit Committee member qualification does not significantly affect financial reporting

Table 4.2.1 Descriptive Statistics

	Mean	Std. Deviation	N
Financial reporting	1.8500	1.05485	258
Audit Committee Member Qualification	2.5333	1.41980	258

Table 4.2.2 Correlations

		Financial reporting	Audit Committee Independence
Pearson Correlation	Financial reporting	1.000	.869
	Audit Committee Member Qualification	.869	1.000
Sig. (1-tailed)	Financial reporting		.000
	Audit Committee Member Qualification	.000	
N	Financial reporting	258	258
	Audit Committee Member Qualification	258	258

Table 4.2.3 Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.869[a]	.755	.751	.52616	.273

a. Predictors: (Constant), Audit Committee Member Qualification
b. Dependent Variable: Financial Reporting

Table 4.2.4 AVOVA[b]

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	49.593	1	49.593	179.134	.000[a]
Residual	16.057	256	.277		
Total	65.650	257			

a. Predictors: (Constant), Audit Committee Member Qualification
b. Dependent Variable: Financial Reporting

Table 4.2.5 Coefficients[a]

Model	Unstandardized Coefficients		Stabdardized Coefficients	T	Sig.
	B	Std Error	Beta		
1 (Constant)	.214	.140		31.531	.031
Audit Committee Independence	.646	.048	.869	13.384	.000

a. Dependent Variable: Financial Reporting
Source: Researchers computations

The regression sum of squares (49.593) is greater than the residual sum of squares (16.057), which indicates that the model explained the model explains more of the variation in the dependent variable. The significant value of the F statistic (0.000) is less than 0.05, which means that the model explanation of the change is not due to chance.R, the correlation coefficient which has a value of 0.869, indicates that there is a significant effect of Audit Committee member qualification on financial reporting. R square, the coefficient of determination, shows that 75.5% of the variation in financial reporting is explained by the model.With the linear regression model, the error of estimate is low, with a value of about 0.52616. The Durbin Watson statistics of 0.273, which is not more than 2, indicates there is no autocorrelation.The Audit Committee member qualification coefficient of 0.869 indicates a significant effect of Audit Committee member qualification on financial reporting, which is statistically significant (with t = 31.531). Therefore, the null hypothesis should be rejected and the alternative hypothesis accordingly accepted. Thus Audit Committee member qualification significantly affects financial reporting.

H3: Monitoring function of Audit Committee does not significantly affect financial reporting

Table 4.3.1 Descriptive Statistics

	Mean	Std. Deviation	N
Financial reporting	1.6500	1.03866	258
Monitoring Function of Audit Committee	2.4000	1.36791	258

Table 4.3.2 Correlations

		Financial reporting	Monitoring Function of Audit Committee
Pearson Correlation	Financial reporting	1.000	.864
	Monitoring Function of Audit Committee	.864	1.000
Sig. (1-tailed)	Financial reporting		.000
	Monitoring Function of Audit Committee	.000	
N	Financial reporting	258	258
	Monitoring Function of Audit Committee	258	258

Table 4.3.3 Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.864[a]	.746	.742	.52801	.354

a. Predictors: (Constant),Monitoring Function of Audit Committee
b. Dependent Variable: Financial Reporting

Table 4.3.4 AVOVA[b]

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	47.480	1	47.480	170.301	.000[a]
Residual	16.170	256	.279		
Total	63.650	257			

a. Predictors: (Constant), Monitoring Function of Audit Committee
b. Dependent Variable: Financial Reporting

Table 4.3.5 Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.

	B	Std Error	Beta		
1 (Constant)	.076	.139		9.549	.005
Monitoring Function of Audit Committee	.656	.050	.864	13.050	.000

a. Dependent Variable: Financial Reporting
Source: Researchers computations

The regression sum of squares (47.480) is greater than the residual sum of squares (16.170), which indicates that the model explained more of the variation in the dependent variable. The significance value of the F statistics (0.000) is less than 0.05, which means that the difference as explained by the model is not due to chance.R, the correlation coefficient which has a value of 0.864, indicates that there is a significant effect of monitoring function of Audit Committee on financial reporting. R square, the coefficient of determination, shows that 74.6% of the variation in financial reporting is explained by the model.With the linear regression model, the error of estimate is low, with a value of about 0.52801. The Durbin Watson statistics of 0.354, which is not more than 2, indicates there is no autocorrelation. The monitoring function of Audit Committee coefficient of 0.864, shows a significant effect of oversight function of Audit Committee on financial reporting, which is statistically significant (with t = 9.549). Therefore, the null hypothesis should be rejected and the alternative hypothesis accordingly accepted. Thus monitoring function of Audit Committee has significant effects on financial reporting.

V. Discussion on Findings

Audit committee independence is a key factor in enhancing its quality in preventing misstatements in financial reports. One of the duties of the audit committee is to give unbiased reviews of financial statements, and independence of the audit committee can improve the quality of financial reporting. This study found out that audit committee independence has a significant effect on financial reporting. This finding is in line with what was observed in the survey carried out by Appah&Emeh (2013). Their results suggested that audit committee independence is significantly related to timeliness of financial reports. Also, Habbash (2010) found out that lack of independence of the audit committee can severely affect the quality and credibility of financial reporting.

Audit Committee member qualification is an integral aspect of Audit Committee that should not be ignored even though the law did not state the requirements. Any person qualified to be a member of Audit Committee should possess an in-depth knowledge about the entity primarily information on the financial reporting and disclosure processes. Members should be knowledgeable of the critical accounting principles and policies adopted by management. Therefore, the study found out that Audit Committee member qualification significantly affects financial reporting. This finding is in line with the research carried out by Okpala (2012). According to him, financial literacy of all members and adequate understanding of the industry in which the company operates are necessary for the proper discharge of duties. The author suggested that at least one member should have financial expertise and professional qualification of recognised professional accounting bodies.

The monitoring function of Audit Committee has a significant effect on financial reporting as shown in the result above. Audit Committee monitoring service encompasses monitoring the internal control system and procedure of the company and overseeing regulatory compliance of financial reporting standards among others. They also monitor and assess the role of and effectiveness of the internal audit function in the overall context of company's risk management system. It shows, from the result shown above, that the Audit Committee of the companies under study is active in their monitoring function responsibility.

Conclusion and Recommendations

Given the findings stated above, the study has demonstrated that there is a significant effect of Audit Committee quality on financial reporting of companies in Nigeria. It has established the need for regulatory authorities' to capture the qualifications of members of the Audit committed in the law regulating operations of entities in Nigeria. Therefore, by the empirical result, this research concludes that Audit Committee quality has a significant effect on financial reporting and makes the following recommendations:

Management should endeavour to steer clear from the functions and responsibilities of the Audit Committee in order not to influence them to be biased in the financial reporting process of the company.Therefore, to perform effectively and efficiently, Audit Committees must be independent of management as this will allow both internal and external auditors to remain free of undue influence and interference from corporate executives.

The regulatory authorities and policymakers should still amend the Companies and Allied Matters Act, 2004 to incorporate the qualification required of an Audit Committee member, the degree of financial literacy must be expressly specified. At least one or two members of the Audit Committee should have an accounting knowledge for the proper understanding of financial reporting and improved compliance with regulatory requirements.

Companies should engage the services of a financial consultant to train members of Audit Committee on areas where in-depth knowledge is required especially on the application of new accounting standards which will aid financial reporting process of the company.

Audit Committee of a company should segment the monitoring process by identifying areas that are vulnerable to manipulation and allow reasonable time to such areas. Intensive review and critical analysis should be carried out in such areas.Therefore, as part of the on-going monitoring process, the Audit Committee should also consider the management representation (or its equivalent) and monitor management's responsiveness to the external auditor's findings and recommendations.

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Appendix A

Allocation of Sample Size

COMPANIES	POPULATION	SAMPLE SIZE
First Bank Nigeria Plc	80	50
Total Nigeria Plc	69	43
John Holt Plc	24	15
First Aluminum Nigeria Plc	12	7
Flour Mills Nigeria Plc	48	30
TOTAL	**233**	**145**

Appendix 2

Sample Size Determination

The Krejcie and Morgan (1970) formular used in determining the total sample size is given below:

$$S = \frac{X^2NP(1-P)}{ME^2(N-1) + X^2P(1-P)}$$

Where, S = Sample size.

X^2 = Chi – Square for the specific confidence level at 1 degree of freedom.

N = Population Size.

P = Population proportion (assumed to be 0.50).

ME = Margin of Error (assumed to be 0.05)

Appendix 3.

QUESTIONNAIRE

1. To what extent does audit committee independence affect timely production of financial report in your company?

   (a) Very High Extent ☐ (b) High Extent ☐ (c) Indifferent ☐

   (d) Low Extent ☐ (e) Very Low Extent ☐

2. To what extent does audit committee independence ensure consistency of financial report in your company?

   (a) Very High Extent ☐ (b) High Extent ☐ (c) Indifferent ☐

   (e) Low Extent ☐ (e) Very Low Extent ☐

3. Audit committee independence ensures that financial reports are comparable in your company

   (a) Strongly Agree ☐ (b) Agree ☐ (c) Undecided ☐

   (d) Disagree ☐ (e) Strongly Disagree ☐

4. To what extent does audit committee independence influence presentation of financial report?

   (a) Very High Extent ☐ (b) High Extent ☐ (c) Indifferent ☐

   (d) Low Extent ☐ (e) Very Low Extent ☐

5. Audit committee monitoring function improves consistency of financial reporting in your company

   (a) Strongly Agree ☐ (b) Agree ☐ (c) Undecided ☐

   (b) Disagree ☐ (e) Strongly Disagree ☐

6. To what extent does audit committee monitoring function enhance timely production of financial report in your company?

   (a) Very High Extent ☐ (b) High Extent ☐ (c) Indifferent ☐

   (b) Low Extent ☐ (e) Very Low Extent ☐

7. Audit committee monitoring function boosts presentation of financial reporting in your company.

   (a) Strongly Agree ☐ (b) Agree ☐ (c) Undecided ☐

   (c) Disagree ☐ (e) Strongly Disagree ☐

8. To what extent does audit committee monitoring function ensures comparability of financial reports of your company?

   (a) Very High Extent ☐ (b) High Extent ☐ (c) Indifferent ☐

   (d) Low Extent ☐ (e) Very Low Extent ☐

9. Audit committee members' qualification positively affects their functions and financial statement presentation in your company

   (a) Strongly Agree ☐ (b) Agree ☐ (c) Undecided ☐

   (e) Disagree ☐ (e) Strongly Disagree ☐

10. To what extent does audit committee members' qualification enhance timely production of financial report in your company?

    (a)Very High Extent ☐ (b) High Extent ☐ (c) Indifferent ☐

    (d) Low Extent ☐ (e) Very Low Extent ☐

11. Audit committee members' qualification positively enhances their functions and consistency in application of accounting principles in your company

(a) Strongly Agree ☐ (b) Agree ☐ (c) Undecided ☐

(d) Disagree ☐ (e) Strongly Disagree ☐

12. Audit committee members' qualification positively improves their functions and comparability of financial statements in your company

(a)Strongly Agree ☐ (b) Agree ☐ (c) Undecided ☐

(d)Disagree ☐ (e) Strongly Disagree ☐

THANK YOU