AUDIT COMMITTEE TRAITS AND QUALITY OF AUDIT OF NON-FINANCE FIRMS IN NIGERIA

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ABSTRACT

This study investigated the effect of audit committee traits on audit quality of non-finance firms listed on the floor of the Nigerian Stock Exchange. The ex-post facto research design was adopted and secondary data of audit committee traits (independence, size and meetings) and audit quality (Big-4 and non-Big-4) were gathered and computed from the audited annual reports and accounts of the firms from 2012-2020. The Wald statistics showed that all the audit committee traits positively and significantly affect the quality of audit. Based on the findings, it was recommended that stakeholders of firms should demonstrate a positive attitude towards audit committee traits by ensuring their independence devoid of management interference. Again, adequate and more financial incentives should be given to audit committee members to stimulate frequent meetings. Finally, non-finance firms should strive towards raising the size of the audit committee from what it is now in order to guarantee improved quality of audit.

Keywords: Audit Committee Characteristics, Quality of Audit, Audit Committee Size, Audit Committee Independence, Audit Committee Meetings.

JEL Classification: M40, M42; M49.

INTRODUCTION

The issue of audit committee traits and quality of audit of firms has attracted robust debates in the accounting literature. The debate stems from the contention that traits of audit committee have the propensity of driving the quality of audit. This view is reinforced by empirical researches (see Mehri et al., 2021; Omotoye et al., 2021; Akpan & Nsentip, 2020; Sukma & Bernawati, 2019; Asiriuwa et al., 2018; Ghafran & O'Sullivan, 2017; Kibiyaa et al., 2016). These studies perhaps, provide both theoretical and empirical foundations for assessing whether audit committee traits considerably affect the quality of quality.

Broadly speaking, audit refers to a systematic and independent investigation of the books, accounts, statutory records, documents and vouchers of maintained by management , with a view to ascertaining the true and fair view of the financial position of the firm. To ascertain the true and fair view of the financial position of the firm, committees of audit (otherwise known as the audit committee), is established by the law. Kabiru & Usman, (2021) opined that the foremost role of the audit committee has been to monitor the integrity of the financial reporting systems of the firm.

Haron et al., (2005) asserted that audit committee is a standing committee setup by the board with objective of contributing to the effectiveness of corporate governance and in ensuring reliable and quality financial reports.

Mehri et al., (2021) affirmed that audit committee facilitates the monitoring activities of the firm and ensures greater quality of audit. Thus, audit committee serve as liaison

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between the external auditor and board of directors; the purpose according to Samuel et al., (2012) is aimed at accelerating monitoring processes of accounting reports in order to decrease information asymmetry among users of financial statements.

Over the years, the role of audit committee has increasingly become vital in corporate governance of firms, given its fundamental place in promoting the quality of audit. De-Angelo, (1981) sees the quality of audit as an assessment of the combined likelihood that the auditor will concurrently discover abnormalities or significant irregularities in clients' accounting systems and publish such abnormalities and irregularities. In our views, the quality of audit refers to the ability of an audit to exercise, detect material errors and fraud that may lead to material misstatements in financial reports, where such exist. Thus, it is very reasonably logical to see audit quality in the light of assurance since the audit provides assurance on financial reports.

Mohammed et al., (2017) emphasized that the quality of audit is the outcome of an audit conducted in accordance with the generally accepted auditing standards (GAASs) aimed at providing reasonable assurance that the audited financial statements and related disclosures are presented in line with the GAAS principles. Besides, the quality of audit is an indication that the financial statements are not misstated whether due to errors or fraud. To this end, one of the imperative issues of the auditing profession has been attaining audit quality. Largely, there are two (2) components of audit committee as it relates to the quality of audit – competence and independence (De-Angelo, 1981; Bedard et al., 2004).

De-Angelo, (1981) posited that these two components must be present in order for the quality of audit to be established. First, the auditors must be competent in terms of exercising diligence and due care in the audit process (implying audit committee expertise in disclosing material misstatements towards ensuring the quality of audit); and second, the auditors must show high level of integrity and objectivity such that they show signs of not being influenced by management (i.e. audit committee independence in disclosing material misstatements in order to ensure the quality of audit).

Notwithstanding the two components of quality of audit inter-alia, prior studies have shown that audit committee size and meetings affect the quality of audit (Mohammed et al., 2017; Samuel et al., 2012; Said et al., 2009). Given the viewpoints of prior studies, this study adopts certain traits of audit committee (independence, size and meetings) so as to see if these traits of audit committee significantly affect the quality of audit of non-finance firms publicly listed on the floor of the Nigerian Exchange Group.

REVIEW OF RELATED LITERATURE

Audit Quality

In recent times, the concept of quality of audit has gained extensive thought from management and researchers alike. Audit quality refers to the ability of the audit committee to exercise, detect material errors and/or fraud that my result to material misstatements in financial statement. According to Mohammed et al., (2017), the quality of audit is the outcome of an audit done in line with GAASs targeted at offering practical assurance that the financial statements are disclosed in agreement with the GAAS principles.

Several measures of the quality of audit abound in the accounting literature. These measures as suggested by Chadegani, (2011); Dang, (2004) encompass direct (i.e. compliance of financial reporting with generally accepted accounting principles (GAAP), quality control, bankruptcy) and indirect (audit size, tenure, industry expertise, fee, reputation, meetings, independence) measures, among others. Chadegani, (2011) uphold that the uses of direct measures are not widespread and quite burdensome to measure. The burdensome

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challenge stems from the difficulty in obtaining secondary data due to its private ownership hence, the popularity of the indirect measures.

In this study, one of the direct measure of the quality of audit was used - Audit Size. The size of the audit is characterized by their admission of extent to which they belong to the Big-4 audit. The size of the audit in this study was measured via a dummy variable of one (1) if the firms' auditor belongs to the Big-4 and zero (0) if otherwise. This measure of the quality audit is similar to those used in the empirical studies of Kathleen & Williams, (2020); Asiriuwa et al., (2018); and Chaidegani, (2011).

Audit Committee Traits

There are numerous audit committee traits, but not limited to audit committee size, independence, meetings, financial expertise, diligence. The study employed three (3) audit committee traits namely, size, independence and meetings; these measures of audit committee traits are briefly discussed:

Audit Committee Independence: Audit committee independence is an important part of a firm's governance. A central feature of an effective audit committee is the 'independence' the committee has from management (Sukma & Bernawati, 2019; and Akpan & Nsentip, 2020). Asiriuwa et al., (2018) noted that audit committees independence is a leading practice and it is expected that majority of the audit committee members must be independent from management or the firm.

An independent audit committee member is a person who is not employed by or providing any services to the firm beyond his/her duties as a committee member (Ghafran & O'Sullivan, 2017). Empirical studies (Juhmani, 2017; Salawu et al., 2017; and Umobong & Ibanichuka, 2017) revealed that audit committee independence positively and significantly influence the quality of audit, predominantly in areas of reducing earnings management, which seems to be a common practice in most corporations in both developed and developing nations; hence, we hypothesized that:

H_{o1}: *Audit committee independence (ACI) has no significant effect on the quality of audit of non-finance firms.*

Audit Committee Size: Regulatory bodies like the Companies and Allied Maters Act and the Securities and Exchange Commission Code of Corporate Governance specified the number of audit committee size or persons that should be on the audit committee. Specifically, the Act stipulates that audit committee members must be six (6) in number and should be made up of equal numbers of directors and shareholders. For the audit committee to function properly, it is expected to have adequate manpower hence, the size criteria.

Audit committee size in the context of this study is described as the number of committee members or persons that make up the audit committee. Quiet a number of studies (Uwuigbe et al., 2016a; Uwuigbe et al., 2016b; Bedard et al., 2004; Yermack, 1996; and Jensen, 1993) have assessed the nexus between the size of audit committee and the quality of audit and found a significant and positive relationship; thus this study seeks to see if audit committee size will significantly affects the quality of audit:

H_{o2}: *Audit committee size (ACS) has no significant effect on the quality of audit of non-finance firms.*

Audit Committee Meetings: Audit committee meeting as it relates to the quality of audit has been in the front-burner among management, accounting researchers and regulatory bodies. For instance, the suggestions of the Blue Ribbon Committee showed that audit committee members are expected to meet regularly to enable them discharge their oversight

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functions and become effective to produce quality audit (Abbott et al., 2002). Bryan et al., (2004) as cited in Madawaki & Amran, (2013) observed that firms with audit committee that meets frequently show signs of improved quality of audit. Thus, these firms are able to execute monitoring tasks more efficiently than those that meet irregularly.

Empirical researches indicate that audit committee meeting should be aligned to size criteria; impliedly, if the audit committee size of the firm is small, they are expected to require more time to meet while large-sized audit committee may require less time to meet. The Blue Ribbon Committee emphasized the needs for audit committee of firms to meet at least on a quarterly basis. Dhaliwal et al., (2006) showed that regular audit committee meetings significantly affect the quality of audit. Similarly, Aronmwan et al., (2013) find that regular audit committee meetings positively and significantly affect the quality of audit; hence, we hypothesized that:

H_{o3}: *Audit committee meetings (ACMS) have no significant effect on the quality of audit of non-finance firms.*

Theoretical Framework

This study is hinged on the Agency Theory. The agency theory advocates the separation of ownership from management; the separation according to Jensen & Meckling, (1976), results in a principal-agent conflict (agency conflict) caused by information asymmetry. According to Enofe et al., (2013), to resolve the agency conflict, audit committee is setup to provide quality audit of the financial statements owners of wealth can rely on. Thus, we expect that the quality of audit is dependent on the presence of the audit committee.

A basic axiom underlying the agency theory is that managers are inclined to act opportunistically to advance their own interests before shareholders' interests; by so doing, agency cost emerges. Fama & Jensen, (1983) noted that the firms' governance should focus on the agency conflict and on how to reduce the agency cost. Adeyemi et al., (2012) opined that environmental factors could reduce agency costs. The relevance of agency theory to this study is that information asymmetry between the principal and agents can be resolved via the audit committee and with this, there is the likelihood that firms may have quality audit. Given the review of related literature, the following conceptual model was proposed:

METHODOLOGY

The research design of this study is the ex-post facto. The study population constitutes all listed non-finance firms on the Nigerian Exchange Group (NEG), which as at 31st December, 2020 are about one hundred and forty-one (741) (NEG, 2020). Non-probability sampling technique was used in selecting the study sample. The study selects the representative sample from the listed –non-finance firms with relevant and consistent datasets for the periods 2012-2020. Using the non-probability sampling technique, a sample size of fifty-seven (57) non-finance firms were selected.

Secondary data were obtained and computed from the audited annual reports and accounts of the selected non-finance firms; the data comprised of traits of audit committee (size, independence and meetings) and audit quality (big-4 and non-big-4 audit firms). The study variables are likened to those used by extant studies (Mehri et al., 2021; Omotoye et al., 2021; Akpan & Nsentip, 2020; Sukma & Bernawati, 2019; and Asiriuwa et al., 2018). This study adapts its models from existing works on audit committee traits and audit quality; hence, the following empirical models were estimated on the basis of the conceptualized model:

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auq = f (acs, aci, acms) eq. 1

auqit = a0 + β1acsit + μit eq. 2a

auqit = a0 + β2aciit + μit eq. 2b

auqit = a0+ β3acmsit + μit eq. 2c

Where: auq = Audit quality; acs = Audit committee size; aci = Audit committee independence; acms = Audit committee meetings; I = firms; t=time-frame; and μt=Error term.

Table 1
MEASUREMENT OF VARIABLES

S/N	Variables	Description
1	Audit quality *(auq)*	A dummy variable of one(1) if the firms' auditor is a Big-4 and zero(0) if otherwise.
2	Audit committee size (acs)	Number of audit committee members.
3	Audit committee independence (aci)	Number of non-executive directors in the audit committee divided by total number of audit committee members.
4	Audit committee meetings (acms)	The number of times the audit committee meets in a particular period.

Source: Researchers' compilation (2021)

Multiple regression estimation technique was used in assessing the relationship between the traits of audit committee and the quality of audit of the listed non-finance firms. A-priori expectation is that the traits of audit committee will significantly influence the quality of audit. The analyses composed of the summary of statistics and inferential statistics.

The summary of statistics include the mean, standard deviation, minimum and maximum values, Karl Pearson correlation; and inferential statistics – variance inflator factor, ordinary least square, heteroscedasticity test, and the fixed and random effects Table 1. Also, Hausman specification test was carried out to ascertain the efficiency of the random or fixed effect and the test was performed via STATA 13.0. statistical software.

RESULTS AND DISCUSSION

Table 2
SUMMARY STATISTICS OF THE DEPENDENT AND INDEPENDENT VARIABLES

Variable	Mean	Standard Deviation	Minimum Value	Maximum Value
AUQ	.6087	.4885	0	1
ACS	5.533	.9795	2	9
ACI	45.96	12.86	0	100
ACMS	3.821	.7704	1	9

Source: Researcher's Computation, (2021)

Table 2 showed that the dependent variable(AUQ) recorded a mean and standard deviation of .6087 and .4885 respectively; also, AUQ is seen to record a minimum value of zero (0) and a maximum value of one (1), suggesting that most likely, some firms' employed the services of the Big-4 and non-Big-4 audit. With regards to the independent variables (ACS, ACI and ACMS), it was found that ACS, ACI and ACMS recorded means and standard deviations of 5.533, 45.96, 3.821 and .9795, 12.86, and .7704 respectively. The low

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standard deviation recorded by most variables are clear indications that the sizes of the audit committee and frequency of meetings are closely around their respective average values excluding audit committee independence which recorded a high standard deviation.

The respective minimum values recorded for ACS, ACI and ACMS are 2, 0 and 1; whereas, the maximum values were 9, 100 and 9 respectively. We observed that audit committee independence (ACI) recorded the highest value and the lowest value alongside ACQ. The mean ACS of 5.5 implies that the average number of directors/members of the audit committee is 5 persons/directors. Meanwhile, the number of members in the audit committee range from 2 to 9.

Table 3
KARL PEARSON CORRELATION OF THE DEPENDENT AND INDEPENDENT VARIABLES

Variable	AUQ	ACS	ACI	ACMS
AUQ	1.000			
ACS	.0120	1.000		
ACI	.0007	.0495	1.000	
ACMS	.0752	.2455	.0160	1.000

Source: Researchers' Computation, (2021).

Table 3 showed that Karl Pearson correlation coefficients of the independent variables are positive; indicating a positive relationship between audit committee traits (ACS, ACI & ACMS) and the quality of audit (AUQ). Thus, a unit increase in the independent variables will result to a positive increase in quality of audit.

A closer look at the results showed the non-existence of multi-collinearity among the pairs of the independent variables; this was evident in the Karl Pearson correlation coefficients found to have values from .0495 to .2455, which are below 0.8 as recommended by Gujarati, (2003) cited in (Okoro & Ekwueme, 2021).

Table 4
VARIANCE INFLATION FACTOR (VIF) OF THE INDEPENDENT VARIABLES

Variable	ACS	ACMS	ACI	Mean VIF
VIF	1.56	1.12	1.02	1.23
1/VIF	.6410	.8929	.9804	

Source: Researcher's Computation, (2021)

Table 4 showed that the mean VIF (1.23) did not exceed the standardized VIF level (10.0); hence, supporting the results in Table 3 of no presence of multi-collinearity among the pairs of independent variable of the study.

Table 5
BREUSCH-PAGAN/COOK WEISBERG TEST

Breusch Pagan Cooke/Weisberg Test for Heteroskedasticity	chi2(1) = 8.65; Prob>chi2(1)= 0.0033

Source: Researchers' Computation, (2021)

Table 5 showed that the chi2 (1) fitted values for the variables is 8.65 with a p-value of 0.0033; this result confirms the absence of heteroskedasticity problem in the empirical model of audit committee traits and the quality of audit.

Table 6
OLS, FE AND RE FOR AUQ AND ACS

Dependent Variable: Audit Quality (AUQ)

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Variables	Symbol	Coefficient	Std. Err.	t-Statistics	Sig.
Constant	_Cons	1.111	0.1541	7.21	0.000
Audit Com. Size	ACS	.04949	0.0234	2.11	0.005
F-ratio (OLS) Prob. of F-ratio				63.45 (0.000)	
R-Squared				0.1829	
Adj. R-Squared				0.1800	
FE (Prob.)				2.45 (0.003)	
RE (Wald chi2(2) (Prob.)				15.35 (0.000)	
Hausman Test		Chi2(2) = 4.98		Prob>Chi2= 0.0829	

Source: Researchers' Computation (2020)

Table 6 showed that ACS obtained positive coefficients of .04949; this means that the explanatory variable (ACS) has positive relationship with audit quality (AUQ). Hence, firms with larger sizes of audit committees may be synonymous with having quality audit reports and engaging the services of Big-4 audit firms. In addition, ACS obtained a t-stat. of 2.11 (P>| t | = 0.005<0.05), which suggests that ACS has a positive and significant relationship with AUQ.

We found the Hausman test value of 4.98 with a p-value (prob>chi2) of 0.0829 > 0.05; this suggests that the result of the Random Effect (RE) model is more appropriate in explaining the relationship between AUQ and ACS. Given the RE result (Wald chi2(2)=15.35; p-value= 0.0000), the null hypothesis was rejected and the alternate hypothesis was accepted indicating that audit committee size(ACS) has significant effect on the quality of audit of non-finance firms.

Table 7
OLS, FE AND RE FOR AUQ AND ACI

Dependent Variable: Audit Quality (AUQ)					
Variables	**Symbol**	**Coefficient**	**Std. Err.**	**t-Statistics**	**Sig.**
Constant	_Cons	1.0321	0.1637	6.30	0.000
Audit Com. Indep.	ACI	0.0009	0.0015	5.68	0.000
F-ratio (OLS) (p-value)				61.01 (0.000)	
R-Squared				0.1771	
Adj. R-Squared				0.1742	
FE (Prob.)				4.67 (0.000)	
RE(Wald chi2(2) (Prob.)				15.13 (0.000)	
Hausman Test		chi2(2) = 4.54			Prob.>Chi2 = 0.1033

Source: Researchers' Computation (2020)

Table 7 showed that ACI obtained positive coefficients of .0009; this implies that the explanatory variable (ACI) has positive relationship with audit quality (AUQ). Thus, firms with audit committee independence may likely to have quality audit reports and engaging the services of Big-4 audit firms. Besides, ACI obtained a t-stat. of 5.68 (P>| t | = 0.000<0.05), which suggests that ACI has a positive and significant relationship with AUQ.

We found the Hausman test value of 4.54 with a p-value (prob>chi2) of 0.1033 > 0.05; this suggests that the result of the Random Effect (RE) model is more appropriate in explaining the relationship between AUQ and ACI. Given the RE result (Wald chi2(2)=15.13; p-value= 0.0000), the null hypothesis was rejected and the alternate hypothesis was accepted suggesting that the independence of the audit committee (ACI) has significant effect on the quality of audit of non-finance firms.

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Table 8 OLS, FE AND RE FOR AUQ AND ACMS					
Dependent Variable: Audit Quality (AUQ)					
Variables	**Symbol**	**Coefficient**	**Std. Err.**	**t-Statistics**	**Sig.**
Constant	_Cons	0.9958	0.1599	2.23	0.000
Audit Com. Meetings	ACMS	0.0413	0.0254	3.62	0.001
F-Ratio (OLS) Prob. of F-ratio				62.34 (0.000)	
R-Squared				0.1802	
Adj. R-Squared				0.1774	
FE (Prob.)				2.91 (0.002)	
RE (Wald chi2(2) (Prob.)				16.28 (0.000)	
Hausman Test		chi2(2) = 4.44		Prob.>chi2 = 0.1088	

Source: Researchers' Computation (2020)

Table 8 showed that ACMS obtained positive coefficients of .0413; this means that the explanatory variable (ACMS) has positive relationship with audit quality (AUQ). Hence, firms with more audit committee meetings may be synonymous with having quality audit reports and engaging the services of Big-4 audit firms. Also, ACMS obtained a t-stat. of 3.62 (P>| t | = 0.001<0.05), which suggests that ACMS has a positive and significant relationship with AUQ.

We found the Hausman test value of 4.44 with a p-value (prob>chi2) of 0.1088 > 0.05; this suggests that the result of the Random Effect (RE) model is more appropriate in explaining the relationship between AUQ and ACMS. Given the RE result (Wald chi2(2)=16.28; p-value=0.000), the null hypothesis was rejected and the alternate hypothesis was accepted indicating that audit committee meeting (ACMS) has significant effect on the quality of audit of non-finance firms.

Independent audit committee plays a positive role in enhancing the quality of audit of firms. This study was conducted to empirically assess the effect of audit committee traits on the quality of audit of non-finance firms listed on the floor of the Nigerian Exchange Group. First, the result of validity tests proved that there were no signs of multi-collinearity among the pairs of independent variables. Additionally, the Breusch-Pagan/Cook Weisberg test revealed the absence of heteroscedasticity in the fitted values of audit committee traits and the quality of audit.

The result of RE suggests that the sizes of the audit committees have significant effect on the quality of audit. Similar results were recorded for audit committee independence and audit committee meetings; hence, the audit committee traits of the study positively and significantly affect the quality of audit of non-finance firms in Nigeria. The findings are in agreement with the studies of Mehri et al., (2021); Omotoye et al., (2021); Akpan & Nsentip, (2020); Sukma & Bernawati, (2019); Asiriuwa et al., (2018); Salawu et al., (2017).

Drawing from agency paradigm, it thus suffice to say that the independence of the audit committee can serve as a channel for mitigating the information asymmetry between the owners of wealth (principal) and management (agents) of firms. This study's result further highlights that proactive audit committees may result to high quality of audits.

CONCLUSION AND RECOMMENDATIONS

The study seeks to investigate the effect of audit committee traits on the quality of audit of non-finance firms listed on the floor of the Nigerian Exchange Group.

Data of audit committee independence, size, meetings and audit quality were obtained and computed from the annual reports of the non-finance from 2012-2020. Given the random effect results, it was concluded that audit committee traits positively and significantly affect the quality of audit. Thus, enhancing the independence of the audit committee as well as the size and meetings,

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may lead to improved quality of audit.

Given the findings, it was recommended that firms' stakeholders should have a positive attitude towards audit committee traits by ensuring their independence without interference in order to deliver maximally. Again, there is need to make adequate financial incentives to encourage frequent meetings of the auditors as well other contributing factors that will lead to an enhanced quality of audit. Finally, non-finance firms should strive towards increasing the audit committee size in order to guarantee improved quality of audit.

CONTRIBUTIONS TO KNOWLEDGE

The contribution of this study lies on the ground that it provides vital knowledge on the audit committee traits (audit committee independence, size and meetings) that are capable of improving the quality of audit of firms. While prior studies have shown that audit committee traits positively and significantly affect indirect measures of audit quality (quality control, bankruptcy, etc.), this study goes on to by establishing that traits of audit committee positively and significantly affect the direct measures of audit quality (audit size, independence and meetings). Finally, the study fills the gap in the accounting literature on what is known about audit committee traits and the quality of audit in the Nigerian context.

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