

Factors Affecting Audit Committee Quality in Nigeria

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Abstract

The purpose of this paper is to identify factors that affect audit committee quality in Nigeria. A hand administered questionnaire survey of 52 accounting professionals was undertaken. Descriptive statistics were used to determine the most common factors. Independent t-tests were used to determine whether there were any significant differences in the perceptions of the factors according to gender, job type and experience. The questionnaire findings, which include some factors peculiar to Nigeria, suggest that many factors affect audit committee quality. These include financial literacy of members of the committee, ability of members to ask relevant questions, provision of remuneration to members of the committee, committee's willingness to periodically evaluate itself, tenure of members to be pegged at a minimum of 3 years and provision of regular training for members. The findings uphold the Nigerian Security and Exchange Commission recommendation that an audit committee should have at least one financial expert in the team. The findings of this study are of particular relevance to the Nigerian regulatory authorities especially the Financial Reporting Council (FRC) as it is set to fashion out a new mandatory corporate governance code for establishments under its purview.

Introduction

Section 359 of Companies and Allied Matters Act of 1990 made it mandatory for public companies in Nigeria to establish audit committees. Audit Committees play very important roles in financial aspects of corporate governance as they help ensure audit quality while at the same time protecting the interest of investors (Okaro & Okafor 2010). However, in recent times a lot of corporate collapses and related frauds have taken place in Nigeria including the distress saga in Nigerian Banks and the Cadbury (Nig)Plc. accounting scandal (Otusanya & Lauwo, 2010); (Madawaki & Amran, 2013); (Okaro & Okafor 2013) These have cast aspersions on the credibility of corporate governance in Nigeria. In particular, the effectiveness of audit committees has being called into question. The composition of audit committees in Nigeria

has been criticized as being skewed in favour of management thus reducing the visible independence of the body. This in turn tends to compromise the quality of their work (Komolafe, 2012). Egbiki (2006) believes that audit committees in Nigeria still need a lot of mileage to move closer to the global trend that have seen audit committees in recent times becoming more and more accountable and responsible. In the case of Cadbury (Nig.) Plc, the audit committee of the company was heavily indicted by the Nigerian SEC report on the accounting scandal in that company. The Audit committee was found guilty of complete dereliction of duty (Al-Faki, 2008). Five vital characteristics identified by the Blue ribbon committee in the US for effective audit committees are independence, financial expertise, commitment to duties and responsibilities, firm specific knowledge and governance expertise (Diana & Lisa 2009). The growing disenchantment with audit committees' performances in Nigeria calls for a fresh initiative in respect of identifying the factors that make for effective audit committees in the socio economic environment of Nigeria. Empirical studies on audit committee effectiveness in Nigeria have tended to concentrate only on financial expertise, independence and commitment to duties and responsibilities. To this end such issues as audit committee size, independence, financial expertise, frequency of meetings multiple directorships and committee chair dominate the discourse. (Okoye & Akenbor, 2010); (Madawaki & Amran, 2013); (Samuel, 2012). Researchers have long expressed concern with the limited vision provided by the existing measures for audit committee effectiveness as outlined above (Wu, 2012). Also research has shown that cultural factors could affect audit quality (Al-lehaidan, 2006) This study addresses the need to broaden the understanding of audit committees in Nigeria.

With this background in mind, the objective of this research is to investigate the attributes that make for quality audit committees in Nigeria. Our study will be guided by the research question "what are the factors that make for audit committee quality in Nigeria? To achieve this objective, 52 Accounting professionals were surveyed who included auditors. Descriptive statistics were used to identify the most important characteristics. Independent t-tests were then employed to determine any differences in the perception of the importance of these characteristics depending on gender, job type and experience. The results of this study will provide further evidence for Nigerian regulators especially the Financial Reporting Council (FRC), the central bank of Nigeria and the Securities and Exchange Commission (SEC) as they define and refine regulations relating to audit committees. The rest of the paper will proceed as follows: The next section is a literature review of possible factors in the Nigerian socio-economic environment that will affect audit committee quality. The third section discusses the research method adopted for the research. This is followed in the fourth section by the presentation and discussion of the research findings. Finally there is a summary and conclusion.

Literature Review

The establishment of audit committees is predicted on agency theory which suggests that a firm's demand for an audit committee is associated with the magnitude of its agency problem. Agency problem arises as a result of separation between ownership and control. Usually shareholders are dispersed in Nigeria and cannot hold the professional managers accountable (Samuel, 2012). The problem usually inherent in the agency relationship is that the agent and the principal may be at variance with each other for the following reasons among others:

- a) The agent is generally assumed to be a risk- averter while the principal is assumed to be a risk –seeker or risk- averter.
- b) The agent might have a shorter duration with the organization than the principal.
- c) The agent’s earnings are fixed (in the absence of incentive payments)while the principal is the residual claimant.
- d) The principal does not directly take part in the day to day management decision-making and control
- e) There is information asymmetry between the agent and the principal as the principal is ignorant of many details of the agent’s activity(Islam, Islam, & Islam, 2010). The audit committee is usually a board committee with the main responsibility of overseeing financial reporting(Zheng, 2008a).Among the elements of corporate governance, audit committee is the key element that strengthens the health of financial reporting.(Salehi, Zanjirdar, & Zarei, 2012). Since managers usually do not have to interact frequently with shareholders, a distance in terms of trust might exist due to this communication gap. Audit committee can act as a bridge in such gaps especially in terms of the integrity of the financial statements of an organisation. An effective audit committee will therefore help in aligning the interests of management with that of shareholders(Chan & Li, 2008). Thus academic literature suggests that a qualitative audit committee has significant positive impact in minimizing agency conflicts and protecting shareholders’ interest(Karbhari & Mohiuddin, 2010). It is posited that mere formation of audit committee on its own does not necessarily translate into an effective or qualitative monitoring body. The activities and effectiveness of such a committee need to be systematically investigated(Al-lehaidan, 2006).

Many characteristics have been canvassed as making for audit committee effectiveness(Lin, Xiao, & Tang, 2008). These include independence, presence of at least one accounting or financial management expert, committee size, multiple directorship, board diligence (proxied by frequency of audit committee meetings). Empirical results have been mixed. While some studies found positive relationships among the traditional audit committee characteristics and audit committee effectiveness(Karamanou & Vafeas, 2005); (Zheng, 2008b); (Karbhari & Mohiuddin, 2010),others found insignificant or even no relationship (Kiatapiwat, 2010). Interestingly, compensation of audit committee members is being canvassed as a better proxy for board diligence(Wan- Hussin & Haji-Abdullah, 2009).

Beyond AC characteristics, other attributes fingered as capable of impinging on audit committee quality include its composition, structure and process(Karbhari & Mohiuddin, 2010). Audit committee quality is crucially dependent on audit committee members collective commitment to fulfill their oversight duties responsibly and management giving full co-operation and support to the access of required information for decision- making(Ashikin, Saat, Karbhari, Xiao, & Heravi, 2012). Hughes(1999) identified ten key attributes of quality audit committees. These include:

- a) Presence of non- executive directors with relevant industry experience, who are able to scrutinize the accounts, internal controls and auditor’s reports with real understanding and ask relevant questions that delve beneath the surface
- b) At least some members with a sound grasp of current developments in financial matters and are able to understand procedures and issues from a financial standpoint.
- c) Openness to regular training in both specific skills and general areas of awareness.
- d) Distinct appointment policies and criteria.

- e) Clear strategies and briefs for setting an appropriate control culture within the organisations
- f) Regular meetings at least four times a year clearly structured and well controlled by the Chairman with powers to invite executives to attend where necessary to explain procedures, clarify issues and give account of areas of concern.
- g) Free and unimpeded flow relevant information on a timely basis from company executives
- h) At least an annual private meetings by the committee with each of the external and internal audit leaders
- i) A process of self- assessment, monitoring and evaluation of its own work with a view to improving its performance.

In the same vein, Mccarthy(2013)also lists some attributes for audit committee effectiveness as including:

- i) Proactivity in focusing the agenda on what's important- financial reporting risk- and making the most of audit committee meetings.
- ii) Insistence on transparency both external and internal- among the audit committee, management and internal and external auditors
- iii) Ability to question the continuing validity of key assumptions that underlie critical accounting judgments and estimates
- iv) Ability to assess the audit committee's role in the oversight of risk management with an eye to clarifying the scope.
- v) Set clear expectations for internal and external auditors
- vi) Ability to set the tone at the top and throughout the organization
- vii) Willingness to take a hard look at the composition and leadership of the audit committee itself.

The establishment of Audit committees by Nigerian Public companies was made mandatory by company and allied matters Act of 1990 which provided for equal representation between shareholders and directors in the committee. Thus audit committees in Nigeria do not quite approximate to audit committees in developed countries which are usually sub-committees of the board with no direct shareholders representation. Certain other unique features of audit committee as provided in section 359 of CAMA1990 seem to dog the path of quality audit committees in Nigeria. The act did not provide for remuneration of its members. If compensation is a proxy for audit committee diligence then it will follow that Nigerian audit committee members may not be expected to be diligent. The law has also been assailed for being silent on whether the directors in the audit committee should be executive or non-executive. The issue of chairmanship of the committee and the attributes of such a person are also not clearly delineated. The minimum number of meetings needed for audit committee effectiveness in Nigeria was not addressed by the Act. It should also be noted that CAMA did not specify the qualifications and experience needed to function as an audit committee member in Nigeria(Owolabi & Dada, 2011);(Ofo, 2010). The Institute of Chartered Accountants of Nigeria (ICAN) is of the view that lack of clear majority by shareholders' representatives in audit committees in Nigeria has hamstrung their operations(Kolafe, 2012). Some shareholders have also canvassed a minimum of 3 year tenure for members as opposed to the current annual election of shareholders representatives in the committee(Abodunrin, 2013).

The SEC code of 2011requires audit committee composition to be in line with the provisions of CAMA 1990. Additionally, the code requires members to possess basic financial literacy and

ability to read financial statements. However, the code requires one of the members to have knowledge of accounting and financial management. The duties of the committee is extended by the 2011 SEC code to include

- a) Overseeing external audit, internal audit
- b) Overseeing compliance and the financial reporting processes
- c) Providing assurance on the operating effectiveness of internal control and risk management practices of the company and establishing an internal audit function where there is none
- d) Overseeing management processes for the identification of significant fraud risks and ensuring that adequate prevention, detection and reporting mechanisms are in place.

The committee is also required to report regularly to the board of their audit findings

The board should have knowledgeable persons in risk management and should meet regularly at least quarterly.

Research Method

The findings of this study are based on responses from 52 auditing, accounting and other professionals who were identified for the purposes of this study. A Zonal conference organized by the Institute of Chartered Accountants of Nigeria (ICAN) at Uyo , in South South Nigeria in August 2013 afforded the researcher the data used for this study. The respondents were professional accountants working as auditors, Accountants and sundry other jobs like lecturing. The work place of respondents cut across the public and private sectors of the Nigerian economy. Once identified, a questionnaire was developed with the questions carefully and meticulously chosen to avoid ambiguity and incidence of wrong or no response.

Questionnaire

The questionnaire was developed with the intention of identifying factors affecting audit committee quality in Nigeria. The questionnaire developed consisted of two sections. Section A consists of three questions about the respondent's gender, years of experience in the present job and job type.(see appendix). Section B consists of 17 questions. The first 16 required individuals to rate their extent of disagreement or agreement with each of the statement based on a 5-point Likert scale ranging from (1) Strongly disagree to (5) Strongly agree. Question 17 was open-ended meant to elicit other factors affecting audit quality not captured in the questionnaire. The questionnaire was hand administered and retrieved. At the end of the conference 52 valid responses had been received.

Characteristics of the Respondents

The background information section of the question was aimed at obtaining data relating to the characteristics of the respondents. Question1 asked the respondents to indicate their gender. The result indicated that 6(11.54%) were females while the remaining 46(88.46%) were males . This suggests that males still dominate professional accountancy in Nigeria. The respondents were also asked to indicate whether they are auditors or hold other non-auditing jobs. The result show that 15(28.85%) while others holding other jobs other than auditing job accounted for 37(71.15%).The third question in Section A asked respondents to indicate their experience credit in two categories- 10 years and below and above 10 years. Both groups had 26 (50%) respondents each.

Results and Discussions

To ascertain the factors affecting audit committee quality, respondents were asked to indicate on a 5-point Likert scale the extent of their disagreement or agreement with the 16 audit committee quality factors included in the questionnaire ranging from strongly disagree to strongly agree. The results presented in Table 1 indicate that out of the 16 factors put to the respondents the highest ranked in terms of percentage of people who 'strongly agree' is statement number 1 in part B of the questionnaire which states that 'an audit committee member should be financially literate.' 37 out of 52 respondents (or 71%) strongly agreed with this statement. The second most popular factor affecting the quality of audit committees in Nigeria as perceived by the respondents is 'audit committee members must be able to ask relevant questions' which is represented by statement number 7. 31 out of 52 respondents (or 59.6% were agreeable to this proposition. The third most significant factor was statement no 3 which states that executive directors should not be members of audit committee. 24 out of 52 respondents (or 46.1%) endorsed this view. The other significant audit committee quality factors included the fact that audit committees must put in motion mechanism for periodic evaluation of their performances (ranked fourth); Audit committee members must be open to regular training (ranked joint fifth); An audit committee member should be remunerated (ranked joint fifth); Audit committee members must hold annual private meetings with the company's external auditors and internal auditors (ranked Sixth); The chairman of the committee must always be a representative of shareholders (ranked joint seventh); Frequency of meetings of audit committees must be at least 4 times a year (ranked joint seventh);

Table 1

TABLE 1: Rank of Factors Affecting Audit Committee Quality by Extent of Disagreement and by the Mean

	QUESTIONS	N	SD	D	UD	A	SA	MEAN	STD. DEV	R ¹	R ²
1	An audit committee member should be	52	0(0%)	0(0%)	0(0%)	15(29%)	37(71%)	4.71	0.457	1	1

	financially literate										
2	An audit committee member should be remunerated	5 2	1(1.9%)	2(3.85%)	5(9.62%)	27(52%)	17(32.7%)	4.10	0.86 9	5	6
3	Executive directors should not be members of audit committee	5 2	3(5.77%)	7(13.46%)	4(7.69%)	14(26.9%)	24(46.1%)	3.94	1.27 4	3	8
4	The chairman of the committee must always be a representative of shareholders	5 2	0(0%)	4(7.69%)	6(11.54%)	27(52%)	14(26.9%)	4.27	1.01 2	7	3
5	Frequency of meetings of audit committees must be at least 4 times a year.	5 2	1(1.92%)	4(7.69%)	6(11.54%)	27(52%)	14(26.9%)	3.94	0.93 8	7	8
6	Audit committee members must be open to regular training	5 2	0(0%)	1(1.92%)	5(9.62%)	29(55.8%)	17(32.7%)	4.19	0.68 7	5	5
7	Audit committee members must be able to ask relevant questions.	5 2	0(0%)	0(0%)	0(0%)	21(40.4%)	31(59.6%)	4.60	0.49 5	2	2
8	Audit committee members must hold annual private	5 2	8(15.4%)	7(13.46%)	4(7.69%)	18(34.6%)	15(28.9%)	3.48	1.43 5	6	10

	meetings with company's external auditors and internal auditors.										
9	An audit committee member should approve any non-auditing service to be performed by the external auditor of their companies	5 2	14(26.9%)	9(17.3%)	8(15.4%)	17(32.7%)	4(7.69%)	2.77	1.36 6	1 2	16
10	An audit committee member must put in motion mechanism for periodic evaluation of their performance as a committee.	5 2	2(3.85%)	2(3.85%)	0(0%)	26(50%)	22(42.3%)	4.23	0.94 2	4	4
11	The law should be amended to provide for greater representation for shareholders than company management to make for the independence of the committee.	5 2	2(3.85%)	4(7.69%)	11(21.2%)	22(42.3%)	13(25%)	3.77	1.04 1	8	9
12	The appointment and	5 2	9(17.3%)	16(30.8%)	3(5.77%)	12(23.1%)	12(23.1%)	3.04	1.48 1	9	13

	remuneration of external auditors should be handled by members of the audit committee										
13	An audit committee member should be given the additional responsibility of monitoring the performance of the management of an organization.	5 2	8(15.4%))	13(25%)	2(3.85%)	20(38.5%))	9(17.30%))	3.17	1.39 6	1 0	12
14	The tenure of audit committee members should be for a minimum period of 3 years to enable them gain experience and become more effective	5 2	2(3.85%))	5(9.6%)	8(15.4%)	25(48.1%))	12(23.1%))	3.77	1.04 1	9	9
15	Multiple directorships in other companies will enhance the effectiveness of audit committee members because of	5 2	6(11.5%))	13(25%)	12(23.1%))	18(34.6%))	3(5.77%)	2.98	1.14 6	1 3	14

	the varied experience it will afford members										
16	Multiple directorships in other companies will adversely affect the effectiveness of audit committee members because of divided attention.	5 2	6(11.5%)	9(17.31%)	11(21.2%)	21(40.4%)	5(9.62%)	3.19	1.18 9	1 1	11

R¹ = Rank using Strongly Agree

R² = Ranking using Mean

The law should be amended to provide for greater representation for shareholders than company management to make for the independence of the committee (ranked 8th); The appointment and remuneration of external auditors should be handled by members of the audit committee (ranked joint ninth); The tenure of audit committee members should be for a minimum period of 3 years to enable them gain experience and become more effective (ranked joint ninth)with 23.1% strongly agreeing.

The remaining problems which had all less than 20% of the respondents strongly agreeing are: An audit committee member should be given the additional responsibility of monitoring the performance of the management of an enterprise (ranked tenth); Multiple directorships in other companies will adversely affect the effectiveness of audit committee(ranked eleventh); An audit committee member should approve any non- auditing service to be performed by the external auditor(ranked twelfth) and Multiple directorships in other companies will enhance the effectiveness of audit committee members because of the varied experience it will afford members (ranked last).

In order to quantify the significance of the factors affecting audit committee quality in Nigeria, the five point Likert scale was coded with values from 1(strongly disagree) to 5 (strongly agree). The descriptive statistics after the exercise is also incorporated in Table 1. The results indicate that although some of the problems are ranked the same as in ‘strongly agree analysis’, there are also notable differences. For example the ranking of statement numbers 1,6,7,10,14 and 16 is consistent in both methods. However, the rest of the statements are ranked differently. For example, statement no 2 is ranked 5th using ‘strongly agree’ but 6th using the mean. Similarly, while statement 8 is ranked 6th using ‘strongly agree criterion, it is ranked 10th using the mean. The differences in ranking are explained by the different ways of quantifying the significance of the audit committee quality factors. It is apparent, however, that the five most significant audit committee quality factors are: An audit committee member should be financially literate; An audit committee member should be remunerated;

An audit committee member must be open to regular training; Audit committee members must be able to ask relevant questions and an audit committee must put in motion mechanism for periodic evaluation of its performances as a committee. Over 30% of the respondents strongly agreed with the five statements relating to audit committee quality in Nigeria. In terms of the mean, all the five statements have a mean rating of four and above out of a possible five suggesting that the respondents view these as significant factors.

In order to determine whether the responses to the first 16 questions were influenced by the three attributes relating to part A, for Q1 we code all males 1 otherwise 0. For Q2 relating to work type all the people who work as auditors were coded as 1 otherwise 0. For question 3 those with over 10 years ' experience were coded 1 otherwise 0. Independent t-tests were run to find out if the responses to the questions were significantly different depending on these attributes. The results are presented in Tables 2, 3 and 4 respectively.

Analysis According to Gender

Question	Gender	N	X (mean)	Df	t-cal	t-crit	Sig	SIG
1)An audit committee member should be financially literate	Male female	46 6	4.72 4.67	50	0.253	2.00	0.801	NS
2) An audit committee member should be remunerated	Male female	46 6	4.11 4.00	50	0.286	2.00	0.776	NS
3 Executive directors should not be members of audit committee	Male female	46 6	3.93 4.00	50	0.117	2.00	0.908	NS
4 The chairman of the committee must always be a representative of shareholders	Male female	46 6	4.28 4.17	50	0.262	2.00	0.795	NS
5) Frequency of meetings of audit committees must be at least 4 times a year.	Male female	46 6	4.02 3.33	50	1.724	2.00	0.091	NS

6) Audit committee members must be open to regular training	Male female	46 6	4.22 4.00	50	0.726	2.00	0.472	NS
7) Audit committee members must be able to ask relevant questions.	Male female	46 6	4.59 4.67	50	-0.367	2.00	0.715	NS
8) Audit committee members must hold annual private meetings with company's external auditors and internal auditors	Male female	46 6	3.52 3.17	50	0.566	2.00	0.574	NS
9) An audit committee member should approve any non-auditing service to be performed by the external auditor of their companies	Male female	46 6	2.87 2.00	50	1.483	2.00	0.144	NS
10) An audit committee member must put in motion mechanism for periodic evaluation of their performance as a committee.	Male female	46 6	4.22 4.33	50	-0.281	2.00	0.780	NS

11	The law should be amended to provide for greater representation for shareholders than company management to make for the independence of the committee.	Male female	46 6	3.72 4.17	50	0.995	2.00	0.325	NS
12	The appointment and remuneration of external auditors should be handled by members of the audit committee	Male female	46 6	2.87 4.33	50	-2.378	2.00	0.021	SIG
13	An audit committee member should be given the additional responsibility of monitoring the performance of the management of an organization.	Male female	46 6	3.00 4.50	50	-2.612	2.00	0.012	SIG
14	The tenure of audit committee members should be for a minimum period of 3	Male female	46 6	3.70 4.33	50	-1.426	2.00	0.16	NS

years to enable them gain experience and become more effective								
15 Multiple directorships in other companies will enhance the effectiveness of audit committee members because of the varied experience it will afford members	Male female	46 6	3.00 2.83	50	0.332	2.00	0.741	NS
16) Multiple directorships in other companies will adversely affect the effectiveness of audit committee members because of divided attention.	Male female	46 6	3.13 3.67	50	-1.040	2.00	0.303	NS

In respect of gender, only in statements number 12 and 13 were there significant differences noted in responses of males and females. Statement 12 stated that “An audit committee member should be given the responsibility of monitoring the performance of the management of an organization” while statement no 13 stated that “appointment and remuneration of external auditors should be handled by members of the audit committee”. The results suggest that females tended to rate more highly the two factors as compared to men.

Analysis According to Job Title

Question	Job	N	X (mean)	Df	t-cal	t-crit	Sig	SIG
1) An audit committee	Auditor Non-auditor	15 37	4.60 4.76	50	-1.122	2.00	0.267	NS

member should be financially literate.								
2) An audit committee member should be remunerated	Auditor Non-auditor	15 37	4.33 4.00	50	1.260	2.00	0.213	NS
3) Executive directors should not be members of audit committee	Auditor Non-auditor	15 37	4.07 3.89	50	0.445	2.00	0.659	NS
4 The chairman of the committee must always be a representative of shareholders	Auditor Non-auditor	15 37	4.53 4.16	50	1.203	2.00	0.234	NS
5) Frequency of meetings of audit committees must be at least 4 times a year.	Auditor Non-auditor	15 37	3.87 3.97	50	-0.367	2.00	0.715	NS
6) Audit committee members must be open to regular training	Auditor Non-auditor	15 37	4.20 4.19	50	0.051	2.00	0.960	NS
7) Audit committee members must be able to ask relevant questions.	Auditor Non-auditor	15 37	4.40 4.68	50	-1.861	2.00	0.069	NS
8 Audit committee members must hold annual private	Auditor Non-auditor	15 37	3.67 3.41	50	0.591	2.00	0.557	NS

meetings with company's external auditors and internal auditors								
9) An audit committee member should approve any non-auditing service to be performed by the external auditor of their companies.	Auditor Non-auditor	15 37	2.73 2.78	50	-0.119	2.00	0.905	NS
10) An audit committee member must put in motion mechanism for periodic evaluation of their performance as a committee.	Auditor Non-auditor	15 37	4.26 4.22	50	0.173	2.00	0.863	NS
11) The law should be amended to provide for greater representation for shareholders than company management to make for the independence of the committee.	Auditor Non-auditor	15 37	3.87 3.73	50	0.426	2.00	0.672	NS
The appointment and	Auditor Non-auditor	15 37	2.80 3.14	50	-0.736	2.00	0.465	NS

remuneration of external auditors should be handled by members of the audit committee								
13 An audit committee member should be given the additional responsibility of monitoring the performance of the management of an organization	Auditor Non-auditor	15 37	3.40 3.08	50	0.743	2.00	0.461	NS
14 The tenure of audit committee members should be for a minimum period of 3 years to enable them gain experience	Auditor Non-auditor	15 37	3.80 3.76	50	0.134	2.00	0.894	NS
15 Multiple directorships in other companies will enhance the effectiveness of audit committee members because of the varied experience it will afford members	Auditor Non-auditor	15 37	3.33 2.84	50	1.427	2.00	0.160	NS

16) Multiple directorships in other companies will adversely affect the effectiveness of audit committee members because of divided attention	Auditor Non-auditor	15 37	2.53 3.50	50	-2.697	2.00	0.010	SIG
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Significant differences exist between auditors and non-auditing accountants in responses to statement number 16 which states that "Multiple directorships in other companies will adversely affect the effectiveness of audit committee members because of divided attention." Auditors viewed the statement as more significant than non-auditors.

Analysis According to Years of Experience

Question	Years of Exp	N	X (mean)	Df	t-cal	t-crit	Sig	SIG
1) An audit committee member should be financially literate.	10 yrs & below	26	4.67	50	-0.300	2.00	0.765	NS
	Beyond 10 yrs	26	4.73					
2) An audit committee member should be remunerated	10 yrs & below	26	4.04	50	-0.475	2.00	0.637	NS
	Beyond 10 yrs	26	4.16					
3) Executive directors should not be members of audit committee	10 yrs & below	26	3.85	50	-0.540	2.00	0.591	NS
	Beyond 10 yrs	26	4.04					
4 The chairman of the committee must always be a representative	10 yrs & below	26	3.96	50	-2.281	2.00	0.027	SIG
	Beyond 10 yrs	26	4.58					

e of shareholders								
5) Frequency of meetings of audit committees must be at least 4 times a year.	10 yrs &below Beyond 10 yrs	26 26	3.92 3.96	50	-0.146	2.00	0.884	NS
6 Audit committee members must be open to regular training	10 yrs &below Beyond 10 yrs	26 26	4.31 4.08	50	1.217	2.00	0.229	NS
7 Audit committee members must be able to ask relevant questions.	10 yrs &below Beyond 10 yrs	26 26	4.65 4.54	50	0.837	2.00	0.406	NS
8 Audit committee members must hold annual private meetings with company's external auditors and internal auditors	10 yrs &below Beyond 10 yrs	26 26	3.19 3.77	50	-1.467	2.00	0.149	NS
9 An audit committee member should approve any non-auditing service to be performed by the external auditor of their companies.	10 yrs &below Beyond 10 yrs	26 26	2.88 2.65	50	0.605	2.00	0.548	NS

10 An audit committee member must put in motion mechanism for periodic evaluation of their performance as a committee.	10 yrs &below Beyond 10 yrs	26 26	4.19 4.27	50	-0.292	2.00	0.772	NS
11 The law should be amended to provide for greater representation for shareholders than company management to make for the independence of the committee.	10 yrs &below Beyond 10 yrs	26 26	3.85 3.69	50	0.529	2.00	0.599	NS
The appointment and remuneration of external auditors should be handled by members of the audit committee	10 yrs &below Beyond 10 yrs	26 26	3.35 2.73	50	1.517	2.00	0.136	NS
13 An audit committee member should be given the additional responsibility of monitoring	10 yrs &below Beyond 10 yrs	26 26	3.50 2.85	50	1.720	2.00	0.092	NS

the performance of the management of an organization								
14 The tenure of audit committee members should be for a minimum period of 3 years to enable them gain experience	10 yrs &below Beyond 10 yrs	26 26	3.77 3.77	50	0.00	2.00	1.00	NS
15 Multiple directorships in other companies will enhance the effectiveness of audit committee members because of the varied experience it will afford members	10 yrs &below Beyond 10 yrs	26 26	2.88 3.08	50	-0.601	2.00	0.550	NS
16) Multiple directorships in other companies will adversely affect the effectiveness of audit committee members because of divided attention	10 yrs &below Beyond 10 yrs	26 26	3.27 3.12	50	0.463	2.00	0.645	NS

Significant difference occurred only in responses to quest 4 according to years of work experience. Statement number 4 states that “The chairman of the committee must always be a representative of shareholders”. Those with more than 10 years’ experience taught that the factor was more significant than those who had ten years or less experience, Question 17 was an open ended question meant to elicit further comments from respondents. One respondent observed that what the committee members need is allowances and not remuneration per se. Another emphasized the overriding need for audit committee members to be exposed to seminars and workshops to enhance their performance. Another advised that audit committee should work hand in hand with the board of directors and should go beyond the realm of theory to being very practical if it must achieve the lofty objectives set for it by the law.

Summary and Conclusion

The objective of this study was to investigate factors affecting audit committee quality in Nigeria. To achieve this objective, the study used a questionnaire survey to elicit the opinions of professional accountants. A total of 52 usable responses were received upon which the results of this paper are based. The results were analysed and ranked based on two approaches. The first approach was to rank the importance of the 16 factors based on the highest percentage of people ‘strongly agreeing’ with each statement. According to these criteria, the most significant factor affecting audit committee quality was that members of the committee must be financially literate. The second most important factor is that members of the audit committee must be able to ask relevant questions. Others include members of audit committees should be remunerated; members of audit committee should put in motion mechanism for periodic evaluation of its performance as a committee; tenure of audit committee members should be for a minimum period of 3 years and members of audit committee must be open to regular training.

The questionnaire was also analysed and ranked after assigning numerical values between one and five, (1) for strongly disagree to (5) strongly agree. For questions 1 to 16 in part B. According to the descriptive statistics results, the ranking of six main factors affecting audit quality did not change. However, there were some differences to the ranking of some other factors that affect audit committee quality in Nigeria. We also wanted to find out if the rating of the statements put to the respondents were influenced by job type, experience and gender. We found little evidence that responses to some of the questions were influenced by these three attributes.

This study should be interpreted in the light of its limitations. First not all factors capable of affecting audit committee quality in Nigeria were investigated. For example, this study did not investigate the effect of widespread corruption in the wider Nigerian society on audit committee quality. Also the study could benefit from the use of a larger number of Chartered Accountants including members of Association of National Accountants of Nigeria (ANAN). ANAN is the only other recognized Accounting body in Nigeria. Overall, the result is consistent with corporate governance literature which suggests that financial literacy is a very important factor in audit committee quality. It upholds the Nigerian Security and Exchange Commission requirement that an audit committee should have at least one accounting or financial management expert in its fold. However, this study has identified other factors in the particular circumstances of Nigeria that are critical to audit committee quality. These include ability to ask relevant questions and exposure to seminars and workshops, the need to

remunerate members, the need to allow members to serve for at least 3 years; the need for chairmanship of the audit committee to be held by shareholders representative; the need for the committee membership to be tilted in favour of more members from shareholders and the need for appointment and remuneration of auditors to be handled by the members of the audit committee. The findings should be of particular relevance to the Nigerian regulatory authorities. In particular, it should be relevant to the Financial Reporting Council(FRC) as it sets out to introduce mandatory code of corporate governance for all Nigerian Companies under its purview.

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Appendix

QUESTIONNAIRE

Factors Affecting Audit Committee Effectiveness in Nigeria

Dear Respondent,

This study is undertaken to identify the factors that affect audit committee effectiveness in Nigeria. We therefore solicit your co-operation in completing this questionnaire. This study is only for academic purposes only and we assure you of the confidentiality of any information given. Please feel free to contact the researchers for any clarification on the following telephone lines: 08033803438 and 08038676966

Thank you very much for your anticipated co- operation.

Yours truly,

Okaro, S.C. and Okafor, G.O. and A.O Oraka

Section A

Demographic information

- a) Gender [Male] [Female]]
 b) Job Title: [Auditor][[Others].
 c) Number of Years' experience in Present position [Up to 10years] [Above 10years]

Section B

Please tick (v) for your preferred Option

S/ N	Statement	SD	D	U	A	SA
	AUDIT COMMITTEE					
1	An Audit Committee member should be financially literate					
2	An audit committee member should be remunerated					
3	Executive Directors should not be members of audit committee					
4	The chairman of the committee must always be a representative of shareholders					
5	Frequency of meetings of audit committees must be at least 4 times a year.					
6	Audit committee members must be open to regular training					
7	Audit Committee members must be able to ask relevant questions					
8	Audit committee members must hold annual private meetings with company's external auditors and internal auditors					
9	Audit committee members should approve any non-auditing service to be performed by the external auditor of their companies.					
10	Audit Committee members must put in motion mechanism for periodic evaluation of their performance as a committee					
11	The law should be amended to provide for greater representation for shareholders than company management to make for the independence of the Committee					
12	The appointment and remuneration of external auditors should be handled by members of the audit committee					
13	Audit Committee members should be given the additional responsibility of monitoring the					

	performance of the management of an organization.					
14	The tenure of Audit Committee members should be for a minimum period of 3 years to enable them gain experience and become more effective					
15	Multiple directorships in other companies will enhance the effectiveness of audit committee members because of the varied experience it will afford members.					
16	Multiple directorships in other companies will adversely affect the effectiveness of audit committee members because of divided attention					

17) Please make other comments on factors you think will enhance Audit Committee quality in Nigeria.