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The Perception of Stakeholders on the Effectiveness of Audit Committees in Nigerian Banks

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Abstract:

This study was motivated by the spate of fraudulent financial practices which has resulted in series of financial scandals in recent times. The main aim of the study was to examine the effectiveness of audit committees in carrying out one of its core functions; the financial reporting processes. The study adopts a survey research design. 550 copies of questionnaire was distributed to a cross section of stakeholders, including shareholders, external auditors, internal auditors, company directors, bank executives, financial analysts, regulators and academics/researchers. The data was analyzed using non-parametric tests such as percentages, mean and standard deviation. The Kruskal Wallis test was also carried out to examine the difference in the perception among the stakeholder groups. The respondents agree that audit committees in Nigerian banks possess the capability to review the integrity of the bank's financial statements (52%); review accounting policies of the bank and make changes where necessary (48%); review the accounting estimates and judgments made in the preparation of financial statements (45%); review whether the preparation of financial statements comply with the prevailing accounting standards (73%); and review the clarity, consistency and adequacy of disclosure in financial statements (65%). Based on these findings, the study concludes that the role of audit committees in financial reporting is fairly performed in Nigerian banks. All the statements with respect to the activities of audit committees in financial reporting function record a mean score greater than 3; and the overall average mean score of 3.40. The Kruskal Wallis test however gives values which are lower than the specified alpha level of .05. This implies that a significant statistical difference exists in the responses of the eight sample groups with respect to the role of audit committees in financial reporting processes.

Keywords: Audit committee, audit committee effectiveness, perception, Nigerian Banks**1. Introduction**

The spate of corporate failures in the Nigerian banking sector in recent times has raised a lot of concern among investors, regulatory agencies and other stakeholders in the corporate environment. The concern is provoked by the decline in the credibility of audited financial statements and many unethical practices uncovered in the many reported financial scandals, such as Oceanic Bank PLC, Afribank PLC, Intercontinental Trust Bank PLC, and several other Nigerian banks.

This development has heightened the search for mechanisms that would enhance the quality of corporate financial statements and the entire financial reporting processes. Prior studies (example, Treadway Commission, 1987 and Blue Ribbon Committee, 1999), reveal that improvement in the quality of financial reporting is often proposed as one of the major reasons why companies establish audit committees. However, it seems that mere formation of audit committees has not address the problem of fraud and fraudulent practices; as institutions across the globe still witness high rate of financial scandals and corporate failures, in spite the existence of audit committees. Thus, emphasis has shifted from mere formation of audit committee to the issue of its effectiveness in carrying out its statutory responsibilities.

Although the effectiveness of audit committee is very important in enhancing the quality of financial reporting, it is surprising to note that little or no study in Nigeria has attempted to examine the extent to which audit committees in corporate Nigeria are effectiveness. Prior studies (such as: Xie, Davidson & DeDalt, 2003; Yang & Krishnan, 2005), have examined audit committees' effectiveness as well as the relationship between audit committee attributes and the quality of financial reporting of firms. However, most of these studies were based on samples and data obtained from the more developed economies, such as, the USA, the UK and Australia. The Nigerian economy, especially the banking sector, therefore presents a unique setting where the effectiveness of audit committee could be empirically examined. The main objective of this study, therefore, is to evaluate the perception of key stakeholders on the

effectiveness of audit committees in Nigerian banks, with regards to their financial reporting function as perceived by different stakeholder groups.

The remainder of the paper is organized as follows: Following this introduction, section 2 is the review of relevant literature. The methodology of the study is discussed in section 3. Section 4 is the discussion of findings followed by the results and conclusion of the paper in section 5.

2. Review of Related Literature

2.1. The Concept of Audit Committee

Audit committee is a committee of the board of directors (BOD), charged with the responsibility of oversight over financial reporting activities (Green, 1994). It is an operating committee of a company's board of directors, whose roles and responsibilities include; financial reporting, external auditing, internal auditing and internal control. It acts as a link between the company's management, the board of directors, and the internal as well as external auditors. Generally, in defining an audit committee emphasis is usually placed on its functions, roles and responsibilities. For instance, the Canadian Institute of Chartered Accountants (CICA) defined audit committee as:

- A committee of directors of an organization whose specific responsibility is to review the annual financial statements before submission to the board of directors. The committee generally acts as liaison between the auditor and the board of directors and its activities may include the review of nomination of the auditor, overall scope of the audit, results of the audit, internal financial controls, and financial information for publication (CICA, 1992:20).

Sarbanes Oxley Act (SOX, 2002) defines audit committee as:

- A committee (or equivalent body) established by and amongst the BoDs 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 (SOX 2002:2)

Millstein (1999) pointed out that the evolution of audit committee as part of corporate governance structure was initiated by the U.S. Securities and Exchange Commission's early focus on the role of audit committees in curbing fraudulent financial reporting and enhancing auditor's independence. Markham (2006) confirms that the concept of audit committee gain prominence in the USA following the McKesson & Robbins financial scandal of the late 1930s. The origin and further development of audit committees has also been traced to other developed countries including, the U.K., Australia, Canada and New Zealand (Bedard and Gendron, 2010). Many researchers identified corporate failure as the primary stimulus in the development of audit committees (Porter & Gendall 1998). Spangler and Braiotta (1990) identified reduction of illegal activity and the prevention of fraudulent financial reporting as the primary roles of the audit committee.

2.2. Audit Committee's Effectiveness

The effectiveness of audit committee has been a focal point in corporate governance discourse among academics and practitioners for many years (example, Levitt, 2000; Markham, 2006; Archambeault, Dezoort & Hermanson, 2008; Wu, 2012). As noted by Markham (2006) and Wu (2012), discussions about the impact of audit committees on public companies date back to 1938, following the McKesson & Robbins financial scandal. One of the recommended practices that emerged from the McKesson & Robbins case was the endorsement of the establishment of audit committees by public companies to improve the integrity of corporate financial reporting.

The interest in effectiveness of audit committee, however, came to the fore following a series of financial frauds and massive financial reporting misstatements, especially in the late 20th century and early 2000s. Indeed, financial fraud and accounting scandals became so rampant in the twenty first century (even with the existence of audit committees in these institutions); thus, making people to question the effectiveness of audit committees and their ability to curb corporate fraud and financial malpractices. Audit committee as a mechanism for corporate governance, thus, began to garner the attention of scholars and researchers. Private practitioners and government agencies sponsored a number of research projects on ways of improving the effectiveness of audit committees. For instance, in 1998, the New York Stock Exchange and the NASD established the Blue Ribbon Committee on improving the effectiveness of corporate audit committees. Also, Price water house coopers and KPMG are some of the professional accounting practitioners that have commissioned survey studies on audit committee effectiveness (KPMG, 1999; PWC, 2005).

2.3. Effect of Audit Committee Attributes on its Effectiveness

In addition to the provisions of the Sarbanes Oxley Act (SOX 2002), the Companies and Allied Matters Act (CAMA, 1990) as well as codes of best practices on audit committee, has recommended certain attributes which audit committee must possess. These attributes include: independence, expertise, number of directors and frequency of meetings. The effect of these attributes on the effectiveness of audit committee is discussed in the next sections.

2.3.1. Audit Committee Independence (ACIND)

Independence is highlighted as one of the key compositions of audit committees by most of the definitions of audit committee. The independence of members of a supervisory governance structure (like an audit committee) from executive management has been widely regarded as a necessary precondition for its effectiveness and supervisory quality (Lee, 2011). The UK Code of Best Practice,

issued by the Cadbury Commission (1992) defined independent audit committee member (director) as one who is independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment.

In the USA, the Sarbanes-Oxley Act (SOX, 2002) regards independent directors as those having no 'significant interest' with the company. The Act defines 'significant interest' as: 1) not being a former employees of the company, 2) not being a former executive directors, 3) not being the clients or the suppliers of the company, 4) not occupationally related with the company, 5) not recommended or appointed on the basis of personal relations, 6) have no close relation to any executive director, and 7) do not have a significant share or represent major shareholder. Section 301 of SOX (2002) stresses that to enhance the independence of audit committees, it must be formed by independent directors, who must not receive consultation fees or reward, and must not take part in any related transactions with the company or its subsidiary.

In Nigeria, the Companies and Allied Matters Act (CAMA, 1990), the SEC code of corporate governance (2003) as well as the CBN code of corporate governance (2006), have identified independence as one of the main attributes of audit committees. The codes also require that, in order to further enhance independence, the position of the audit committee chairman should be separate from the board chairman or the managing director.

There is a general expectation that the independent directors of the audit committee can improve the corporate governance environment and effectively assist in the supervision of the company's financial reporting process. Indeed, several studies have produced a correlation between audit committee independence and lower incidence of financial statement fraud (Beasley, 1996; Abbott & Parker, 2002; Klein, 2002; Carcello & Neah, 2003). Beasley (1996), for instance, notes that companies with a high percentage of independent directors in their audit committees have lower incidence of financial manipulations. Similarly, Klein (2002) finds a negative relationship between outside directors and earnings management.

2.3.2. Audit Committee Accounting Expertise (ACACCEXP)

Section 407 of SOX (2002) requires the Securities Exchange Commission (SEC) to adopt rules mandating that audit committees of public firms contain at least one member who is deemed a financial expert. The SOX's initial definition of financial expert was one who had education or experience in accounting or auditing. However, this definition of a financial expert was highly criticized for being overly restrictive and severely limiting the pool of qualified financial experts (Bryan-Low 2002; cited in Abernathy 2013). According to Abernathy (2013) SEC responded to these concerns by expanding the definition of the audit committee financial expert to include non-accounting financial expertise.

This broader definition of audit committee financial expertise gave rise to a stream of academic research investigating the association between the type of financial expertise on the audit committee (accounting and non-accounting) and the effectiveness of such committees, especially with regards to financial reporting activities (see: Krishnan 2005, Carcello *et al.* 2006, Defond *et al.* 2005, Bédard *et al.* 2004, Xie *et al.* 2003). The findings of these studies are consistent with the expectation that an audit committee member with financial/or accounting expertise enhances the committee's performance.

However, these studies measure financial expertise differently. For instance, while Bedard *et al.* (2004) use a strict definition of financial expertise, and find a positive association with earnings quality, Xie *et al.* (2003) define financial expertise in terms of investment banking experience. They conclude that investment banking experience is effective in improving earnings quality. Defond *et al.* (2005) on the other hand posit that accounting expertise, rather than broader financial expertise, improves the effectiveness of an audit committee.

2.3.3. Audit Committee Industry Experience (ACINDEXP)

It is important that audit committee members have experience which fitted into the organization's context. Kang, Kilgore and Wright (2011) defined industry experience in terms of having been in the same industry for a 'reasonable length of time', which they defined as at least twenty years. As noted by Dhaliwalet *et al.* (2010), industry experience could have a great impact on audit committee's effectiveness, especially in overseeing the financial reporting process of the organization, and thus enhances the integrity of the financial statements. They argued that the business and industry knowledge possessed by audit committee members can complement the domain-specific knowledge of accounting expertise. Also, Cohen, Krishnamoorthy and Wright (2008) noted that audit committee members with industry experience are likely to have a superior ability to understand, interpret, and assess the quality of financial reports than members with no industry experience. In a similar context, Bédard, Chtourou and Courteau (2004) argue that, in order to fulfill their responsibilities, audit committee members should possess corporate governance and firm-specific experience, in addition to financial or accounting expertise. Further, Xie, *et al.* (2003) argued that the proportion of audit committee members with corporate or investment banking backgrounds could have effect on the level of earnings management of a firm and its general effectiveness.

2.3.4. Audit Committee Frequency of Meeting (ACMEET)

The number of audit committee meetings has been used frequently as proxy for diligence and activeness of audit committee in corporate governance literature (McMullen and Raghunandan, 1996; Song and Windram, 2004; Al-Lehaidan, 2006). McMullen and Raghunandan (1996) in examining the determinants of audit committee effectiveness used frequency of meetings as a sign of diligence audit committees.

Prior studies on the relationship between the frequency of meetings and audit committee effectiveness (especially with regards to the quality of financial reporting), has so far, produced mixed results. Bryan, Liu and Tiras (2004) and Koh *et al.* (2007) are in agreement

that audit committee that meets regularly improves the transparency of reported earnings and therefore enhance earning quality. But, Yang and Krishnan (2005) and He, Wright, Evans and Crowe (2007) found no evidence of a significant relationship between the number of audit committee meetings and earnings management. Contrary to this position, McMullen and Raghunandan, (1996) document that companies with less audit committee meetings are often found to have problems of financial reporting. O'Sullivan, Percy and Stewart (2008) confirm that audit committee meeting frequency is positively associated with the disclosure of forward-looking information in financial statements. In their report on the study of the collapse of firm of Andersen & Co, Chen and Zhou (2008) noted that the frequency of audit committee meeting is an important mechanism in enhancing good corporate governance practice. It is argued that, the ability of the audit committee to uncover any financial irregularity and resolve problems in the financial reporting process will depend largely on the frequency with which the committee meets to consider issues affecting the company.

2.3.5. Audit Committee Size (ACSIZE)

This refers to the number of directors on the audit committee. The size of an audit committee may have effect on its effectiveness and ultimately on the quality of financial reporting. The BRC (1990), the US-SEC (1999) and SOX (2002) recommend that audit committees consist of a minimum of three directors. The CAMA (2004) however recommends a maximum of six directors for audit committees in Nigeria. In the US, most of the audit committees are comprised of three or four directors; three to six directors seems to be the optimum number for an audit committee (Pricewaterhouse, 2005).

The expectation is that a large audit committee would enhance the effectiveness of the committee and ultimately the quality of financial reporting of the firm. However, Yermack (1996) and Eisenberg, Sundgreen and Wells (1998) argue that larger boards/committees reduce the firm's value. Similarly, Vafeas (2005) documents that the earnings-return relationship is strong for firms with smaller board size, than for firms with large boards. The author argued that members of a small board/committee will be more likely to take responsibility for monitoring the firm's activities. Along the same line of argument, Jensen (1993) states that when boards get beyond seven or eight people, they are less likely to function effectively and thus, are susceptible for the CEOs' control. Often times such boards/committees are characterized by slower decision-making (Goodstein, Gautam & Boeker, 1994); are less cohesive (Lipton & Lorsch, 1992); are more fragmented and easily manipulated by management (Alexander, Fennell & Halpern, 1993). The impression from these studies is that smaller audit committee would be more beneficial than larger ones. However, it is argued that a large audit committee increases the resources available to the audit committee and improves the quality of its oversight; and thus makes it more likely that potential problems in the financial reporting process will be uncovered and resolved. Further, Feloet *al.* (2003) agree that a larger audit committee increases the quality of financial reporting. Also, Lin, Li and Yang (2006) find that firms with audit committees consisting of at least four members are less likely to experience earnings restatements.

2.4. Roles and Responsibilities of Audit Committee

To examine the effectiveness of audit committees, it is important to understand their roles and responsibilities. The USA Committee of Sponsoring Organization (COSO, 1987; 2004) state that the basic responsibilities of audit committees are to achieve three main objectives, namely: supervising the financial reporting process, perfecting the internal control system and oversight over the external auditing as well as enhancing auditor's independence (Lee, 2011). This study is however limited to the financial reporting function of audit committees.

2.4.1. Role of Audit Committee in Financial Reporting Process

As stated in other sections of this study, it is the responsibility of the board of directors to ensure accurate and reliable financial statements that reflect the transactions of the company (Cohen, Krishnamurthy & Wright, 2002). This responsibility is often delegated by the board of directors to the audit committees, who are expected to carry out some oversight over the entire financial reporting process. DeFond and Jiambalvo (1991) and McMullen 1996) are in agreement that the establishment of audit committee improves the quality and accuracy of financial information as well as ensuring that the officers responsible for reporting and disclosure are more closely monitored and controlled. The Best Practice Guidelines for Audit Committee, issued by the Thailand Stock Exchange also acknowledged that the aims of the establishment of an audit committee are to create efficiency in the operations and to add value to the organization, which would give effect to increment of reliability and credibility of financial reports.

In addition to international best practices recommended by international regulators, a great number of studies (such as Gendron and Bedard, 2006; Bedard and Gendron, 2010; Mohiuddin, 2012) have identified the specific things audit committee should do in the discharge of their responsibility over financial reporting. The summary of their recommendations is that in pursuit of its role and responsibilities, audit committee would be concerned about the following:

- reviewing the integrity of the financial statements;
- monitors the selection of appropriate accounting policies;
- reviews the reliability of published financial and non-financial information;
- reviews accounting policies and make necessary changes where necessary;
- reviews the accounting estimates and judgments done in the preparation of financial statements;
- reviews management's implementation of internal control;
- reviews the clarity, consistency and completeness of disclosure in financial statements.
- review all significant transactions, especially those that are non-routine and those that might be illegal, questionable, or unethical (Mohiuddin, 2012).

3. Methodology

This study adopts a survey research design. Questionnaire was used to obtain information from respondents, in order to evaluate their perceptions on the effectiveness of audit committees in monitoring the financial reporting processes in Nigerian banks. The study group consists of shareholders, directors/CEOs, external auditors, internal auditors, financial analysts, regulators and academics/researchers.

The construct of effectiveness was measured using the benchmarks and best practices recommended by prior researches and commissioned studies (such as Treadway Commission Report, 1987; Blue Ribbon Committee Report, 1999; DeZoort *et al.* 2001; Feloet *et al.*, 2003; Defond *et al.* 205). These benchmarks and recommended best practices were used in formulating questions in the survey questionnaire. Questionnaire survey provides the best method of evaluating the extent to which local best practices aligned with international benchmarks and recommended practices.

3.1. Population of the Study

The target population of this study consists of end-users of financial information and those whose functions/duties interfaced with audit committees. This includes such stakeholder groups as shareholders, directors/CEOs, external auditors, internal auditors, financial analysts, regulators and academics/researchers. 550 copies of questionnaire were distributed among these stakeholder groups. The selection of the 550 respondents, from among the eight stakeholder groups, however, was based on judgmental sampling.

3.2. Data Collection Instruments

The data for this study is part of the main data collected for the Ph.D thesis on 'Audit Committees' Effectiveness and the Quality of Financial Reporting in Nigerian Banks'. Questionnaire was used to extract data used in the analysis of the perceptions on audit committees' effectiveness. The questionnaire was constructed with the objective of translating the concepts in this study into measurable variables. The construction of the questionnaire draws from several prior literature, especially Manawaduge (2012) and Mohiuddin (2012) as well as international best practices and benchmarks for audit committee's effectiveness.

The questionnaire was structured into two main sections and eight sub-sections. Section A provides the respondent's background information and includes his/her gender, educational and professional qualifications, work experience, corporate governance experience and the stakeholder group he/she belongs. Section B, the main section of the questionnaire, was aimed at gathering respondents' opinion regarding their perceptions on the effectiveness of audit committees in Nigerian banks. This section consists of 43 questions structured into seven subsections, which reflect the main variables of audit committee and the criteria for measuring effectiveness.

Respondents were asked to indicate the extent to which they agree or disagree to the statements relating to audit committee effectiveness. The perception of the respondents was measured on a five-point Likert scale from 1 to 5 (1=strongly disagree, 5=strongly agree). The Kruskal-Wallis test was used to analysis differences in the responses.

4. Data Analyses and Discussion of Findings

4.1. Analysis of Responses by Stakeholder Groups

Stakeholder Groups Sampled	Copies of Questionnaire Distributed	Received within one month	Received within the 2 nd month	Total Received	Response Rate
Company Shareholder (SH)	100	86	-	86	86%
External Auditor (EA)	50	20	18	38	76%
Internal Auditor (IA)	50	14	17	31	47%
Regulatory Agency (RA)	150	20	38	58	39%
Financial Analyst (FA)	50	14	10	24	48%
Director/CEO (DC)	50	10	8	18	36%
Banker/Bank Executive (BK)	50	8	6	14	28%
Lecturer/Researcher (LR)	50	14	10	24	48%
Total	550	186	107	293	53%

Table 1: Analysis of Survey Responses by Stakeholder Groups

Table 1.0 shows that 550 copies of questionnaire were distributed, out of which 293 (representing 53%) was correctly completed and returned. Shareholder group has the highest response rate of 86%, followed by the external auditors (76%). The bankers/bank executives group has the least response rate of 28%. The busy schedule of bankers and their general apathy in giving out information could be the possible explanation for this low response. However, considering the Nigerian corporate environment, coupled with the sensitive nature of the research topic, the overall response rate of 53% is considered very satisfactory and higher than response rate in similar studies.

4.2. Profile of the Respondents

Demographic Profile	Categories	Frequencies	%
Gender:	Male	190	64.8
	Female	103	35.2
	Total	293	100.0
Educational Qualification	SSCE/GCE	5	1.7
	OND/NCE	20	6.8
	B.Sc/HND	157	53.6
	M.Sc/MBA	94	32.1
	Ph.D	17	5.8
	Total	293	100/0
Professional Qualification:	FCA/FCCA/FCNA	80	27.3
	ACA/ACCA/CAN	123	42.0
	CIB/CIS/ICS	29	9.9
	BL (Attorney)	15	5.1
	None	46	15.7
	Total	293	100.0
Working Experience:	1-5years	46	15.7
	6-10years	85	29.0
	11-15years	100	34.1
	16-20years	46	15.7
	20years and above	16	5.5
	Total	293	100.0
Audit Committee Membership Experience:	Yes	122	41.6
	No	171	58.4
	Total	293	100.0
Financial Literacy:	Yes	257	87.7
	No	36	12.6
	Total	293	100.0
Knowledge of the Statutory and Regulatory Requirements of Audit Committee:	Yes	289	98.6
	No	4	1.4
	Total	293	100.0
Shareholding Status:	None	41	14.0
	1-2 companies	76	26.0
	3-5 companies	97	33.1
	6-10 companies	66	22.5
	Above 10 companies	13	4.4
	Total	293	100.0

Table 2: Background Information of the Respondents

Table 2 shows that 65% of the respondents are male; while 35% are female. This indicates a fair mix of the respondents. With regards to educational qualification, the result shows that majority of the respondents (54%) are within B.Sc/HND holders; 38% holds postgraduate degree; out of which 6% are doctorate degree holders. This means that 92% of the respondents hold first degree and above. Also, 69% of the respondents are professionally qualified accountants; out of which 27% have attained the status of 'fellow' of their respective professional bodies. The high rate of academic and professionally qualified accountants among the total respondents has enriched the quality of survey findings in this study, as their perceptions could be highly reliable.

The table further indicates that 45% of the respondents have worked for a period up to 10 years; while 33% (or 96) of the overall respondents have up to 15 years work experience. Only 16% of the total respondents have worked for a period less than five years. This implies that the sample consists of persons who are experienced enough to understand the questions in the questionnaire and thus provide proper responses.

Experience as a member of an audit committee and financial literacy are considered vital in understanding the issues under consideration. The responses to these questions show that 42% of the total respondents have served in an audit committee at one time or the other; while 88% (or 257) of the total respondents have the ability to review, read and understand financial reports of a company. Similarly, 98% (or 289) of the total respondents have good knowledge of the statutory requirement about the formation of audit committee by public companies as well as the regulatory requirements relating to the composition and responsibilities of audit

committees. The very good knowledge of audit committee requirements by almost all the respondents implies that they will be able to provide accurate responses to questions/statements raised in the questionnaire, relating to audit committees' effectiveness.

4.3. Perceptions on the Effectiveness of Audit Committees

STATEMENT		SH	EA	IA	RA	FA	DC	BK	LR	Total
Audit committees possess the capability to review the integrity of the bank's financial statements	SD	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.3
	D	6.5	2.7	2.4	8.2	1.7	1.0	0.0	0.7	23.2
	N	11.6	3.4	2.0	5.1	1.4	0.7	0.7	0.3	25.3
	A	9.6	6.1	4.8	6.5	3.8	4.4	4.1	6.8	46.1
	SA	1.7	0.7	1.0	0.0	1.4	0.0	0.0	0.3	5.1
Audit committees review accounting policies of the bank and make changes where necessary	SD	0.3	0.3	0.3	0.0	0.7	0.0	0.0	0.0	1.7
	D	8.5	3.1	1.4	8.5	1.0	1.0	0.0	0.7	24.2
	N	11.3	3.4	2.7	4.8	2.0	0.7	1.0	0.0	25.9
	A	8.5	4.8	4.8	6.5	3.8	4.4	3.8	7.2	43.7
	SA	0.7	1.4	1.4	0.0	0.7	0.0	0.0	0.3	4.4
Audit committees review the accounting estimates and judgments made in the preparation of financial statements	SD	0.0	0.3	0.7	0.0	0.3	0.0	0.0	0.0	1.4
	D	8.5	2.4	4.1	4.8	2.4	0.3	1.0	0.7	24.2
	N	10.9	3.4	1.4	9.2	2.0	0.7	2.0	0.0	29.7
	A	9.2	5.8	3.8	5.8	2.7	5.1	1.7	7.5	41.6
	SA	0.7	1.0	0.7	0.0	0.7	0.0	0.0	0.0	3.1
Audit committees review whether the preparation of financial statements comply with the prevailing accounting standards	SD	0.0	0.3	0.3	0.0	0.3	0.0	0.0	0.0	1.0
	D	4.8	2.4	1.0	0.3	1.7	0.3	0.0	0.7	11.3
	N	8.9	2.0	0.7	1.4	1.4	0.3	0.0	0.0	14.7
	A	12.3	7.2	7.5	18.1	4.1	4.1	4.8	4.4	62.5
	SA	3.4	1.0	1.0	0.0	0.7	1.4	0.0	3.1	10.6
Audit committees review the clarity, consistency and adequacy of disclosure in financial statements	SD	0.0	0.0	0.3	0.0	0.3	0.0	0.0	0.0	0.7
	D	5.5	3.8	1.4	1.4	1.7	0.7	0.0	0.7	15.0
	N	9.9	2.0	1.0	4.1	1.4	1.0	0.0	0.3	19.8
	A	9.6	6.8	6.5	14.3	4.4	2.7	4.8	4.1	53.2
	SA	4.4	0.3	1.4	0.0	0.3	1.7	0.0	3.1	11.3
Key: SH = Shareholder; EA= External Auditor; IA = Internal Auditor; RA = Regulatory Agency; FA = Financial Analysts; DC = Directors/CEOs; BK = Bankers; LR = Lecturers/Researchers										

Table 3: Analysis of Perceptions on the Effectiveness of Audit Committees in Financial Reporting Processes (in Percentages)

From table 3, 52% of the respondents are in agreement that audit committees in Nigerian banks possess the capability to review the integrity of the bank's financial statements; while only 48% of them agree that audit committees actually review accounting policies of the bank with a view of making necessary changes. Also, only 45% of the respondents agreed that audit committees in Nigerian banks review the accounting estimates and judgments made in the preparation of financial statements. Majority of the respondents (73%) however agreed that audit committees review the extent to which the preparation and presentation of financial statements comply with the prevailing accounting standards; while 65% of the respondents agreed that audit committees review the clarity, consistency and adequacy of disclosure in financial statements.

The statement that audit committees review the extent to which the preparation of financial statements comply with the prevailing accounting standards was agreed with by the highest number of respondents (73%); while their ability to review the clarity, consistency and adequacy of disclosure receives 65% agreement. On the other hand, the statement that audit committee reviews accounting estimates and judgments made in the preparation of financial statements receives the least score of 45%. The responses generally indicate that the role of audit committees in financial reporting is fairly performed in Nigerian banks. There are yet some areas where audit committees are expected to improve their activities in order to enhance their effectiveness with respect to financial reporting processes.

4.4. Factors Affecting Audit Committee Effectiveness

The respondents were requested to share their opinions on the factors affecting the effectiveness of audit committees. A total of four factors were listed in the questionnaire, based on prior studies and reviewed literature. The results of the responses to these factors are presented in Table 4.

STATEMENT		SH	EA	IA	RA	FA	DC	BK	LR	Total
Lack of qualified members in relevant field of corporate governance issues.	SD	0.0	0.7	0.0	0.0	0.3	0.0	0.0	0.0	1.0
	D	2.0	1.4	2.0	4.1	1.0	0.0	0.0	0.3	10.9
	N	1.0	3.1	1.7	3.8	0.7	0.0	0.0	0.0	10.2
	A	17.7	4.4	5.1	10.2	4.4	4.8	3.1	6.8	56.7
	SA	8.5	3.4	1.7	1.7	1.7	1.4	1.7	1.0	21.2
Lack of members with expertise knowledge in relevant field such as Accounting and Auditing.	SD	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.3
	D	0.0	3.1	1.7	4.1	0.7	0.0	0.0	0.7	10.2
	N	2.4	1.7	1.0	0.3	1.0	0.0	0.0	0.0	6.5
	A	15.0	5.1	6.1	10.2	4.8	4.8	3.8	6.8	56.7
	SA	11.9	3.1	1.7	5.1	1.4	1.4	1.0	0.7	26.3
Inadequate training of audit committee members	SD	0.3	0.3	0.0	0.0	0.3	0.0	0.0	0.0	1.0
	D	0.0	2.4	0.7	0.0	0.7	0.7	0.0	0.0	4.4
	N	1.0	1.0	1.7	1.0	0.0	0.0	0.0	0.0	4.8
	A	18.1	6.8	6.1	17.1	6.5	4.1	4.1	5.5	68.3
	SA	9.9	2.4	2.0	1.7	0.7	1.4	0.7	2.7	21.5
Lack of effective monitoring of the audit committee	SD	0.0	0.3	0.0	0.0	0.3	0.0	0.0	0.0	0.7
	D	0.3	1.7	0.7	2.7	0.3	1.0	0.0	0.7	7.5
	N	2.4	2.4	1.4	1.4	0.7	0.0	0.0	0.0	8.2
	A	25.9	6.8	6.5	15.4	5.8	4.8	4.4	7.5	77.1
	SA	0.7	1.7	2.0	0.3	1.0	0.3	0.3	0.0	6.5
Key: SH = Shareholder; EA= External Auditor; IA = Internal Auditor; RA = Regulatory Agency; FA = Financial Analysts; DC = Directors/CEOs; BK = Bankers; LR = Lecturers/Researchers										

Table 4: Analysis of Perceptions on the Factors Affecting the Effectiveness of Audit Committees in Nigerian Banks (in Percentages)

Table 4 shows that 78% of the respondents (or 229 out of 293) are of the opinion that lack of qualified members in relevant fields is a major factor affecting the effectiveness of audit committees in Nigerian banks. Eighty three percent (83%) of the respondents believes that lack of members with expertise in accounting/auditing is responsible for lack of effectiveness in audit committees in Nigerian banks. Majority of the respondents (90%) agreed with the statement that inadequate training of audit committee members a major factor affecting their effectiveness; while 84% of the respondents attribute inefficiency of audit committees to ineffective monitoring by the relevant agencies.

Overall, inadequate training of audit committee members has the highest score of 90%. This implies that most of the respondents agreed that training and retraining would enhance effectiveness; and that because audit committee members in Nigerian banks have not been properly trained, this could impair on their effectiveness.

4.5. Results of Statistical Tests of the Survey Data

4.5.1. Responses towards the Perceptions of Audit Committees' Effectiveness in Financial Reporting Processes: Mean and Standard Deviation

Variable	Mean	Std. Dev.
1. Audit committees possess the capability to review the integrity of the bank's financial statements.	3.2342	.89439
2. Audit committees review accounting policies of the bank and make changes where necessary.	3.2491	.93048
3. Audit committees review the accounting estimates and judgments made in the preparation of financial statements	3.2082	.89194
4. Audit committees review whether the preparation of financial statements comply with the prevailing accounting standards.	3.7031	.84230
5. Audit committees review the clarity, consistency and adequacy of disclosure in financial statements.	3.5939	.90028
Mean Average	3.3977	

Table 5: Perceptions on Effectiveness of ACs in Financial Reporting Processes

Table 5 shows that five statements were made to evaluate the perception of respondents with respect to the effectiveness of audit committees in financial reporting processes. All the statements in this section record a mean score greater than 3. The mean scores of the responses to the first three statements are similar to a large extent (3.23, 3.24 and 3.20 respectively). The fourth statement in this section which states that audit committees review whether the preparation of financial statements comply with the prevailing accounting standards, has the highest mean score of 3.703, followed by 3.593 for the fifth statement which relates to the clarity, consistency and adequacy of disclosure in financial statements. The average mean score of 3.398 for all five statements in this section is an indication of effectiveness of audit committees with respect to their responsibility over financial reporting processes. This result aligns with Song and Windram (2004) who reported that the UK audit committees play a significant role in monitoring the effectiveness of financial reporting. Thus, with respect to their role in financial reporting processes, audit committees in Nigerian banks are perceived as effect

4.6. Differences in the Perception on the Effectiveness of Audit Committees among the Stakeholder Groups

Measurement Criteria	Related Statement	Responses	N	Mean Rank	Kruskal-Wallis Test	
					Value	Asymp. Sig.
Effectiveness of Audit Committees in Financial Reporting Processes	The differences in the mean scores of responses within the eight sample groups, with respect to financial reporting oversight as a measure of ACE, are not statistically significant.	1.00	70	149.21	14.779	.005**
		2.00	57	158.93		
		3.00	85	161.54		
		4.00	66	121.25		
		5.00	13	96.12		
		Total	291			
Factors Affecting the Effectiveness of Audit Committees in Nigerian Banks	The differences in the mean scores of responses within the eight sample groups, with respect to factors affecting the effectiveness of ACs are not statistically significant.	1.00	70	126.19	19.847	0.001*
		2.00	57	148.60		
		3.00	85	133.47		
		4.00	66	167.39		
		5.00	13	214.65		
		Total	291			

Table 6: Results of the Tests on the Difference in Perceptions on the Effectiveness of Audit Committees by Stakeholder Groups

*Significant at 1% level;

**Significant at 5% level.

Table 6 shows the results of the tests of the differences in responses of the eight sample groups on the effectiveness of audit committees in financial reporting processes. The result shows that at a 5% level there is a significant difference in the perceptions of the eight sample groups. The Kruskal-Wallis test gives a significant value ($p=.005$), which is lower than the specified alpha level of .05. This implies that a significant statistical difference exists in the responses of the eight sample groups with respect to the role of audit committees in financial reporting processes. On the general factors affecting the effectiveness of audit committees, the Kruskal-Wallis test gives a significant value ($p=.001$), which is also lower than the specified alpha level of .05. This implies that a significant statistical difference exists in the responses of the eight sample groups with respect to the role of audit committees in financial reporting processes.

The plausible explanation for the differences in perceptions among the sample groups is the wide range of stakeholder groups covered in this study; which ranges from the highly knowledgeable groups such as external auditors to the not-so-knowledgeable ones among the shareholders. In terms of academic and professional qualifications, there are also some disparities, which could also account for the differences in perceptions. It is imperative to stress that these differences in perceptions do not reduce from the reliability of the results of this study. These results are collaborated by that of Mohiuddin (2012), who reported statistically significant differences in the opinions of four sample groups with respect to the role of audit committees in financial reporting processes.

5. Conclusions

The primary aim of this study was to investigate the effectiveness of audit committees in Nigerian banks, with respect to their financial reporting function. This was achieved through the administration of questionnaire to a cross section of stakeholder group, consisting of external auditors, internal auditors, directors, shareholders, bank executives, financial analysts, officers of regulatory agencies and academics/researchers. The questionnaire was developed based on prior studies on audit committee's effectiveness and recommended best practices on audit committee. The data obtained were analyzed using non-parametric tests such as tabulation, percentages, mean and standard deviation. The Kruskal Wallis test was also carried out on the data, to examine the differences in the perceptions among the stakeholder groups.

The findings of the study reveal that, contrary to general expectations, audit committees in Nigerian banks are perceived as fairly effective, with respect to their functions over financial reporting processes. The possible explanation for this result is that banking industry, which is the focus of this study, is a highly regulated industry; hence management would always strive to meet the requirements of the codes of corporate governance on audit committees (even if 'on papers'), in order to avoid sanctions. This finding is collaborated by that of Abdullatif (2006), who sampled 108 auditors from 20 audit firms in Jordan and reported that audit committees in Jordan are perceived as slightly effective. The Kruskal Wallis test indicates a significant statistical difference in the responses of the eight sample groups with respect to the role of audit committees in financial reporting processes.

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