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## **EXAMINING THE QUALITY OF FINANCIAL REPORTING IN THE BANKING SECTOR IN NIGERIA: DOES AUDIT COMMITTEE ACCOUNTING EXPERTISE MATTER?**

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**OJEKA STEPHEN AANU**

Department of Accounting, College of Business and Social Sciences,  
Covenant University, Nigeria, Tel: (+234) 0703 952 8774;

Email: [stephen.ojeka@covenantuniversity.edu.ng](mailto:stephen.ojeka@covenantuniversity.edu.ng)

**FAKILE ADENIRAN SAMUEL**

Department of Accounting, College of Business and Social Sciences,  
Covenant University, Nigeria

**ANIJESU AJAYI**

Department of Accounting, Covenant University, Ota, Ogun State,  
Nigeria

**OWOLABI FOLASHADE**

Department of Accounting, Covenant University, Ota, Ogun State,  
Nigeria

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## **Abstract**

The inclusion of an accounting expert in the audit committee has been seen as a major feat recorded in the Nigerian Security and Exchange Commission Code reform in 2011. The code mandated all listed firms in Nigeria to make sure that at least one member possesses accounting skill that could help the committee perform its functions effectively. This study therefore, examined the effect of audit committee accounting expertise (when compared to finance and supervisory expertise) on the quality of financial reporting. The study measured financial reporting quality by reliability (total accrual quality) and relevance (audit report lag). The study considered fifteen listed money deposit banks for the period (2003-2012). Analyses were carried out using descriptive statistics and Panel Least Square. It was found that, the inclusion of accounting expert in the audit committee showed a greater negative coefficient with quality financial report. This means having an accounting expert on the audit committee board, exerts greater positive impacts on quality financial report in term of reliability (TAQ) and relevance (ADLAG) when compared to finance and supervisory expertise. It is therefore recommends that, all stakeholders' especially regulatory agencies should ensure compliance with the provision of Nigerian Security and Exchange Commission Code reform in 2011 in term of inclusion of accounting experts on the audit committee. This would also help the firms in reducing agency costs.

**Keywords: Audit Committee, Accounting Experts, Financial Reporting Quality, Deposit Money Banks, Security and Exchange Commission, Nigeria**

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## **INTRODUCTION**

The numerous financial and accounting scandals that have hit the business community since the late 1990s have pointed out the need to improve both corporate governance and the quality of financial reporting [1]. For instance, Benston et al. [2] were of the opinion that "many scandals that have turned on specific accounting and financial arrangement have raised doubts over the ability and the strength of directors, particularly audit committees' members in understanding and figure out the complexities involved in examining the company's financial statement". The effect of this inability of the audit committee to peruse the financial statement and ensure compliance with the spirit of corporate governance is seen in the waves of corporate abuses such as management excessive, consumption of perquisites, creative accounting, falsification of accounting records, reward for poor performances through performance related bonuses and abuse of performance incentive schemes [3].

As a result, the providers of funds that is, the investors, especially in the banking sector, seem to have lost confidence in the ability of the management to adhere strictly to the principle of corporate governance and safeguarding shareholders' funds. This necessitated key players' in the financial market (especially regulatory authorities) to respond quickly with an approach that would indicate competence and a broad understanding of the causes as well as an apt appreciation and efficiency of what needed to be done to fix the system. This was necessary to restore confidence in the financial market systems [4]. Among the steps taken was the enactment of the Security and Exchange Commission's Code (2011) (hereafter SEC Code) which came by as a result of the failure of the 2003 code to address the issue of audit committee financial expertise and hence failed to ensure quality financial reporting [5,6].

The 2011 code therefore, specifically provided for the inclusion of an Accounting expert as against the 'financial literacy' of the audit committee members as contained in the 2003 SEC Code in Nigeria. This development was premised on the fact that, the audit committee can understand facts behind the figures in the financial reporting and be able to ask probing questions on issues that border on risk assessment. The audit committee needs broad understanding of corporation's financial statements and reason why some of the accounting principles critical to the corporation's business were chosen and the benefits. In addition, they also need to understand what key judgments and estimates were made by management; and how the choice of principles, and the making of such judgments and estimates, impacts the reported financial results of the corporation and the shareholders' wealth.

However, the choice of who is a financial expert has been a subject of debate. Sarbanes Oxley Act [7] defined financial expertise to include people with background in either accounting or auditing (narrower definition) whereas the SEC and the U.S. stock exchanges controversially opted for a wider description of financial expertise, where financial expertise could include accounting expertise, or any experience in supervising employees with financial responsibilities and overseeing the performance of companies. Some have argued that effective audit committee members are those who have general management experience rather than those who have an accounting or financial background.

Prior studies failed to provide strong evidence that financial expertise (under the broad definition) positively influences audit committee effectiveness [8-11]. For example, Abbott et al. [12]; Farber [13] and Ojeka et al. [14] employed the current broad definition of financial expertise and documented lower instances of earnings restatements and accrual quality, higher demand for audit services and lower occurrence of financial fraud in firms with financial expertise in audit committees. Whereas, Carcello et al. [8], DeFond et al. [11], Lee et al. [10] and Anderson, et al. [9] used a similar definition but fail to document any strong financial reporting advantages arising from audit committee financial expertise. The result recorded from these two positions is therefore mixed.

These discrepancies in the results cast doubts on the ability of some types of financial expertise to significantly influence audit committee effectiveness [15] and suggestive of the fact that the current definition of financial expertise may indeed be too encompassing and lacks the effectiveness to ensure high financial reporting quality.

However, since these studies [14,16] have not examined the influence of accounting, finance and supervisory expertise separately, it is possible that the results of these studies are being driven by one of these expertise types (e.g., accounting expertise). This is important given that there is evidence to suggest that any expertise obtained as a result of professional accounting and auditing certification or from any other accounting related work experience contributes more significantly to audit committee effectiveness [11,17,18].

This study, as a result of prior studies on the differing effects based on type of financial expertise, decomposed the broad description of financial expertise into accounting, supervisory, and finance expertise [11,14,19]. The first contribution of this study to extant literature especially in Nigeria is to examine which among the three types of financial expertise of the audit committee members (especially accounting) is most strongly associated with higher reliability and relevance of financial reporting (proxied by accrual quality). The second contribution of this study is to justify or otherwise the inclusion of an accounting expert in the Nigeria SEC Code 2011 and the resultant effect on quality financial report.

The rest of the paper is structured into four parts. Part 2 discusses the literature and hypothesis development and part 3 the methodology, part 4 discusses the analysis and implications of findings while part 5 is the conclusion and recommendations.

## **LITERATURE REVIEW/HYPOTHESIS DEVELOPMENT**

### **Overview of Nigerian Banking Sector**

The Nigerian banking sector is very important to the developments of every other sector. It is responsible for the financing the real sector of the economy. However, Nigerian banks were largely participating in financial buying and selling without recourse to the real sector. Prior to year 2004, the total number of commercial banks (as it is referred to then) in Nigeria were 89. However, in order to strengthen the financial capacity of the banks, the Central Bank of Nigeria (hereafter CBN) reduced the size to 25 by asking them to re-capitalize to N25 billion. This exercise prompted various mergers and acquisition.

Although the consolidation process in the Nigerian banking sector created bigger banks, it however failed to overcome the fundamental weaknesses in corporate governance in many of these banks. The huge surge in capital availability occurred during the time when corporate governance standards at banks were extremely weak. In fact, failure in corporate governance at banks was indeed a principal factor contributing to the financial

crisis.

During this period, some banks were seeing engaging in unethical and potentially fraudulent business practices [20]. In hindsight, boards and executive management in some major banks were not equipped to run their institutions. Some banks' chairmen/CEOs were seen often to have an overbearing influence on the board, and some boards lacked independence; directors often failed to make meaningful contributions to safeguard the growth and development of the bank and had weak ethical standards; the board committees were also often ineffective or dormant.

The near crash of the sector was inevitable prompting CBN intervention to save the banks from total collapse, the CBN injected a total of N620 billions of tax payers' money in nine of the banks with liquidity and capital adequacy issues in order to stabilize their operations, and removed and replaced the executive management in eight of the banks (Table 1). The total insider related loan is stated hereunder:

**Table 1:** Total Insider Related Loans.

S/no	Year	Total Insider Related Loan
		N' Billion
1	2006	12.7
2	2007	44.75
3	2008	16.41
4	2009	2.21
Source: Adapted from Moses (2011:11)		

Table 1 shows the total insider related loans that took place between 2006 and 2009. That is the years that preceded the period some banks executives were removed in the Nigerian banking sector. From the Table 1, there was a significant increase of insider related loans over 2006 as a result of the then just concluded consolidation exercise that made all the banks assessed billions of dollars of shareholders fund. The unpreparedness of the boards and particularly the CEOs as to how to engage the fund coupled with weak corporate governance as reported by CBN suggested the rise up till 2008. However, in 2009, a significant drop in the insider related loans as a result of CBN special audit that took place during the year was witnessed. The audit committee was severally criticized for its ineffectiveness in ensuring the quality of financial report especially in the area of internal control and assessment and evaluation of risks. Hence, the reason why the Nigeria SEC specifically required in the 2011 code that, the audit committee must comprise of at least an accounting expert who to forestall future occurrence among other measures.

## **Audit Committee Accounting Expert and Financial Reporting Quality**

An accounting expert is one who is an audit certified public/chartered accountant, or has either worked in public accounting, or for a public company as the chief financial officer or controller [21]. Since one of the primary functions of audit committees is to monitor the firm's financial reporting system and this involved complexities of financial data, prior studies suggested that audit committee members with accounting backgrounds are seen as the right choice in enhancing financial monitoring [22,23]. Moreover, other authors such as Agrawal et al. [18] found that audit committee accounting expertise is positively associated with accruals quality, suggesting that the specialized skills possessed by accounting experts make them more effective in executing the audit committee's primary responsibility of ensuring higher quality financial reporting. Kevin [21] was also of the opinion that audit committee accounting expertise has been linked to more informative earnings.

More specifically, prior studies provide evidence of higher earnings response coefficients for firms having at least one accounting expert on their audit committee [23] than firms without an accounting expert. These results suggest that accounting expertise is associated with investor perceptions that earnings are persistent [24], and therefore of high quality. DeFond et al. [11] also was able to document positive abnormal returns for firms that appoint an accounting expert to their audit committee, consistent with investors believing that adding accounting expertise enhances corporate governance and increases shareholder value. In another dimension, while Dhaliwal et al. [15] found a significant positive interaction effect between audit committee accounting expertise and strong audit committee governance, they however did not find any evidence of an association between accruals quality and the presence of finance or supervisory expertise in audit committees, even when complemented with strong audit committee or board governance.

This suggests that, the positive association between audit committee accounting expertise and accruals quality is more pronounced for firms with strong governance in audit committees. DeFond et al. [11]; Agrawal et al. [18] and McDaniel et al. [25] put it that any expertise obtained as a result of professional accounting and auditing certification or from any other accounting related work experience contributes more significantly to audit committee effectiveness. This study therefore expects a negative coefficient in term of reliability (TAQ) and negative coefficient in term of relevance (ADLAG). As a result, the following hypothesis is proposed in the null form:

*H0: Audit committee accounting expertise does not have more significant impact (viz-a-viz finance and supervisory expert) on the quality of financial reporting in the Nigerian banking sector.*

## RESEARCH METHODS

This study considered the banking sector because it is a very crucial sector in the Nigerian economy in term of its market capitalization. It also, represents the major bedrock of the economy and any negative event in this sector will reflect in the general performance of the economy. Besides, it is the most regulated sector in the Nigerian economy. The initial population of 21 banks was reduced by 3 as a result of the bridge banks introduced in 2011 to manage the assets and liabilities of the affected banks. This therefore reduced the population to eighteen (18) and the number of banks sampled to fifteen (15). The sample period covered “2003-2011” representing the period within which the Securities and Exchange Commission enacted the SEC Code of 2003 and 2011 to provide for an accounting expert on the audit committee.

To test the hypothesis stated, the study adopted the Least Square Dummy Variable (LSDV). The study also decomposed the quality of financial reporting into relevance and reliability. Relevance was calculated as the interval of days between the balance sheet closing date and the signed date of the auditor’s report stated in the annual report [14]. Also, the study measured the second quality of financial reporting by reliability which is proxy as accrual quality. Schipper [26]; Burilovich et al. [27] in Ojeka et al. [14] posited that, accounting accruals remains the favored instrument for earning management because they are easy for the management to manipulate (Table 2).

In addition, the measures used in measuring accrual quality in this study is similar to the one used in [14,28] which means that, the higher the index of accruals, the poorer the quality of financial reporting and the closer the index to zero, the better is the quality of financial reporting [29].

**Table 2:** Synopsis of Variables’ Measurement/Description.

<b>Names of Variables</b>	<b>Acronym</b>	<b>Measurement</b>
<b><i>Dependent Variables</i></b>		
Reliability (Total Accrual Quality)	TAQ	See Appendix
Relevance (Audit Report Lag)	ADLAG	Interval of days between the balance sheet closing date and the signed date of the auditor’s report stated in the annual report
<b><i>Independent Variables</i></b>		
Audit Committee Accounting Expertise	ACEXP	Certified chartered accountants, chief financial officers, vice presidents of finance, financial controllers, or any other major accounting positions
Audit Committee Finance Expertise	FINEXP	Investment bankers, financial analysts, or any other financial management roles
Audit Committee Supervisory	SUPEXP	Work experience as chief executive officers

Expertise		or company presidents
Source: Field Study (2015)		

**Model Specification**

The following mathematical equations were developed to establish the influence of audit committee accounting, finance and supervisory expertise on the quality of financial report in the Nigerian banking sector as presented hereunder:

$$ADLAG = f (ACEXP, FINEXP, SUPEXP) \tag{1}$$

$$TAQ = f (ACEXP, FINEXP, SUPEXP) \tag{2}$$

**Using LSDV (Panel Data Estimation), equation 1 above becomes:**

$$ADLAG_{it} = \lambda_0 + \lambda_1 ACEXP_{it} + \lambda_2 FINEXP_{it} + \lambda_3 SUPEXP_{it} + Q_1 \epsilon_1 + Q_2 \epsilon_2 + \dots + Q_{j-1} \epsilon_{n-1} + \mu_{it} \tag{3}$$

and equation 2 above also becomes:

$$TAQ_{it} = \beta_0 + \beta_1 ACEXP_{it} + \beta_2 FINEXP_{it} + \beta_3 SUPEXP_{it} + Q_1 \epsilon_1 + Q_2 \epsilon_2 + \dots + Q_{j-1} \epsilon_{n-1} + \mu_{it} \tag{4}$$

Where  $j = n = 18$

The parameters of the model are such that:

$$\begin{aligned} &\lambda_1, \lambda_2 \dots \dots \dots \lambda_3 > 0; \\ &\alpha_1, \alpha_2 \dots \dots \dots A_3 > 0; \\ &\text{and} \\ &Q_1, Q_2 \dots \dots \dots Q_3 > 0; \\ &i = 1, 2 \dots \dots 18 \text{ and } t = 1, 2 \dots \dots 10 \text{ (2003-2011)} \end{aligned}$$

**ANALYSIS AND PRESENTATION OF RESULTS**

This section of the study displayed different analyses of results and presentations (Table 3). The hypothesis stated was tested and analyzed using descriptive statistics, correlation coefficient and Panel Least Square.

**Descriptive Statistics**

**Table 3:** Banks Sampled.

Banks	No of years sampled	Years of Observation
Access	9	2003-2011
Diamond	9	2003-2011
ECO	9	2003-2011

FCMB	6	2006-2011
First Bank	9	2003-2011
Fidelity	9	2003-2011
GTB	9	2003-2011
Skye	6	2006-2011
Stanbic IBTC	9	2003-2011
Sterling	6	2006-2011
UBA	9	2003-2011
Union	9	2003-2011
Unity	6	2006-2011
Wema	9	2003-2011
Zenith	9	2003-2011
<b>TOTAL</b>	<b>123</b>	<b>2003-2011</b>
Source: Ojeka et al. [14]		

This study made use of the same banks as contained in Ojeka et al. [14]. These banks were relevant because of the similarity in the scope and period of study. According to the authors as reflected in Table 3, the average number of years represented in the study is nine (9) and the total year observations considered is 123. Some of the banks engaged in one form of merger or the other during the period of study (Table 4).

**Table 4:** Descriptive Statistics for the Population.

Variables	Mean	Max.	Min	Std.Dev	P.value
<b>Dependent:</b>					
ADLAG	91.36585	304	14	54.47247	0.00000
TAQ	-0.0173	0.953806	-2.47251	0.289498	0.00000
<b>Independent:</b>					
<b>Decomposition of Expertise:</b>					
FIN_EXPERT	0.934959	1	0	0.21629	
ACC_EXPRT	0.943089	1	0	0.232619	
SUPVR_EXPERT	0.471545	1	0	0.499233	
<b>OBSERVATIONS</b>	<b>123</b>	<b>123</b>	<b>123</b>	<b>123</b>	
Source Field (2015)					

The Table 4 above demonstrates the decomposition of audit committee financial expertise into finance, accounting and supervisory expertise. Further observations shows that the presence of accounting experts in the audit committee account for 94%, finance expertise 93%, however, there is a low presence of supervisory expertise in the audit committee with 47% (Table 5). In addition, accrual quality among these banks was negatively signed to indicate that on the average, the banks engaged in income increasing strategy, while the average lag days was 304.

**Table 5:** Test of Normality for the Data.

	<b>Skewness</b>	<b>Kurtosis</b>
<b>Secondary Data</b>		
Audit Report Lag (ADLAG)	1.616522	6.801113
Total Accrual Quality (TAQ)	-5.65182	48.17387
Accounting Expertise (ACC_ EXPERT)	-3.82515	15.63177
Financial Expertise (FIN_ EXPRT)	-3.52769	13.44457
Supervisory Expertise (SUPVR_ EXPERT)	0.114006	1.012997
Source: Field Survey (2015)		

The Table 5 shows the result of the test of normality for the variables captured in the data. The result obtained from the data showed that they are normally distributed because the skewness index for each of them was less than 3.0 and the kurtosis was less than 10 (Table 6). According to Hair et al. [30] the assumption of normality is only rejected when the univariate Skewness index and kurtosis of a set of data are greater than 3.0 and 10.0 respectively.

**Table 6:** Accrual Quality of Banks Sampled.

<b>Variables</b>	<b>Mean</b>	<b>Std. Dev.</b>
Access	0.038725564	0.078884
Diamond	-0.01158999	0.030577
ECO	0.08725166	0.150425
Fcmb	0.088934902	0.149351
Fidelity	0.000678792	0.040913
First	0.00920971	0.02698
GTB	0.011350174	0.037131
Skye	-0.00959967	0.031075
Stanbic IBTC	-0.25965129	0.830402
Sterling	0.003635555	0.014196
UBA	-0.13899607	0.290373
Union	-0.0451395	0.583981
Unity	0.02734439	0.059879
Wema	-0.00378739	0.011485
Zenith	0.001991674	0.007217
Source: Ojeka, Iyoha and Asaolu (2015)		

Table 6 highlighted the fact that, almost all the banks sampled during the period of study engaged in accruals. This however differ from one firm to another, as some engaged in income decreasing while others engaged in income decreasing [14]. It is this act, which almost brought the banking sector to its knees during the period that necessitated the apex body in strengthening the institution of corporate governance which audit

committee is an important factor (Table 7). This was the justification for the inclusion of accounting expert in the audit committee for more effectiveness and reduction in accrual quality.

**Table 7:** Effects of the Three Types of Financial Expertise on the Quality of Financial Report.

<b>Audit Report Lag (dependent variable) Relevance</b>						
	<b>Coefficients</b>	<b>R<sup>2</sup></b>	<b>Adjusted R<sup>2</sup></b>	<b>T-ratio</b>	<b>P-value</b>	<b>Std. error</b>
Finance Expert	-25.199**	0.423	0.393	-2.034	0.0442	12.389
Accounting Expert	-45.724*	0.443	0.413	-1.840	0.0683	24.847
Supervisory Expert	9.954	0.426	0.396	1.504	0.1353	6.6181
Expertise (Aggregate)	-12.584*	0.178	0.136	-4.4933	0.0627	5.551
<b>Total Accrual Quality (dependent variable) Reliability</b>						
Finance Expert	0.03***	0.084	0.037	7.634	0.000	0.004
Accounting Expert	-0.049**	0.100	0.054	-1.993	0.0485	0.062
Supervisory Expert	-0.094*	0.064	0.015	-1.655	0.082	0.101
Expertise (Aggregate)	-0.036**	0.074	0.027	-1.794	0.07	0.020
<b>Keys: ***, **, * Significant at the 1%, 5% and 10% levels respectively</b>						
Source: Field Survey (2015)						

The Table 7 showed the impact of the three types of financial expertise i.e. finance, accounting and supervisory expert on relevance (ADLAG) and reliability (TAQ) of financial report in the Nigerian Banking Industry. Each of the financial expertise was included in the equation simultaneously to see the effect on the dependent variable. By using ADLAG, Accounting Expertise showed it is negatively signed. i.e. it has an inverse relationship with Audit Report Lag. This indicates its ability to reduce Audit Report lag, hence enhancing the relevance of the financial reporting. Finance Expertise also shows a negatively coefficient i.e. an inverse relationship while Supervisory Expertise showed it has a positive insignificant impact on Audit Report Lag. They were all significant at 1%, 5% and 10% respectively except for supervisory expertise.

In addition, the aggregate (combination of the 3 expertise) showed a significant negative relationship with Audit Report Lag ( $p < 0.1$ ). Accounting expertise however shows it has more impacts on Audit Report Lag (relevance). This means that, an inclusion of an Accounting expert will reduce the report lag by 46 days and the inclusion of a financial expert in the audit committee will reduce the report lag by approximately 28 days. The Adjusted R2 for accounting expertise stood at 0.413. All the decompositions of expertise were significant at 1%, 5% and 10% level of significance except for supervisory

expertise which showed a positive sign with relevance of financial report.

Using the Total Accrual quality, surprisingly, supervisory expertise had the greatest impact on reliability (TAQ) of financial report with a value of about (0.094). This is quite unusual as finance expertise recorded the lowest value of about 0.03 and was positively signed with a probability 0.000 which means it was significant at 1%, 5% and 10%. These results are in variance with the position of SEC and stock exchanges on allowing the inclusion of supervisory and finance expertise in the definition of financial expertise. Accounting expertise was also significantly negative. This result however supports the stance of Nigeria Security and Exchange Commission (SEC) and other stock exchanges around the world particularly, Sarbanes Oxley-Act (SOX) [7] on the need to have an Accounting Expert on the audit committee board.

In sum, the results show that, accounting expertise plays a major role in promoting financial reporting quality when compared to supervisory and finance expertise. Overall, it accounts for greater impact on both reliability and relevance of financial report (Table 8). This finding as reflected invariably supports the proposition of Beasley et al. [17] cited in John et al. [31] where it is suggested that individuals with a better understanding of technical accounting and auditing issues contribute more significantly to audit committee effectiveness. DeFond et al. [11] and Krishnan et al. [16] also argued that effective oversight by an audit committee requires that its members possess expertise in accounting and auditing.

**Table 8:** Combined Effects of Explanatory Variables on the Quality of Financial Reporting.

<b>QUALITY OF FINANCIAL REPORT (Reliability and Relevance)</b>				
<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
ACC_EXPERTS	-19.6713***	7.976597	-2.46613	0.0152
FIN_EXPERTS	7.470532	7.609198	0.981777	0.3284
SUPVR_EXPERTS	2.87192	3.69122	0.778041	0.4382
C	91.16048	15.54422	5.86459	0
R-squared	0.46335	Mean dependent var		56.16749
Adjusted R-squared	0.404806	S.D. dependent var		33.74689
S.E. of regression	26.03532	Sum squared resid		74562.15
F-statistic	7.914611	Durbin-Watson stat		0.905098

Prob(F-statistic)	0.00000		
Keys: ***, **, * Significant at the 1%, 5% and 10% levels respectively Note: Numbers in each cell are arranged in the following order- Coefficient, t-values (in parenthesis), P-values and Std $\beta$			

The regression in Table 8 shows the combined effect of all the variables on ADLAG and TAQ in describing the quality of financial reporting in banks in Nigeria. The R-square showed that the variables explain 46% variation in the changes in financial report quality. The Probability F-statistic (0.000) shows that there is a joint multiplicative significance on Financial Reporting Quality (FRQ). FRQ shows a negative relationship with the level of accounting experts in the audit committee. It shows that the level of accounting experts have far more greater impact on the quality of financial reporting when compared with financial experts and supervisory experts. The existence of the accounting experts helps to improve the quality of financial reporting in Nigerian banks.

We find no evidence of an association between accruals quality and the presence of finance or supervisory expertise in audit committees when the quality of reliability and relevance (Accrual Quality and ADLAG/Timeliness) were combined together. This finding as reflected invariably supports the proposition of Krishnan et al. [16] and Dhaliwal et al. [19] who found that only the presence of an Accounting Financial Expertise (as opposed to a Non-AFE) on the audit committee is associated with higher financial reporting quality (FRQ). Since accruals involve judgments, estimates and assumption, there is a high probability that would have been discussed by accounting expertise before a new policy is applied [17]. Hoitash et al. [32], Carcello et al. [22], and Dhaliwal et al. [19] all document a positive association between accounting financial expertise and Financial Reporting Quality (FRQ). Collectively, prior research suggests that audit committee effectiveness is positively associated with the addition or presence of accounting expertise.

**DECISION**

The result of the empirical analysis (fixed effect regression) in Table 7 indicates that (accounting expert with a coefficient of -45.724 and p-value of 0.068 for relevance (ADLAG), and a coefficient of -0.049 and a p-value of 0.0485 for reliability (TAQ) and also a combined coefficients of -19.67 and a p-value of 0.0152 on the combinations of TAQ and ADLAG referred to as quality of financial reporting and an overall F-statistic and p-value of 7.9146 and 0.000 respectively), the null hypothesis which stated that Audit Committee Accounting Expertise has no significant impact on the quality of financial reporting in the Nigerian Banking sector cannot be uphold and is therefore rejected.

## CONCLUSION AND RECOMMENDATIONS

The Tables 1-8 as shown above clearly demonstrate that there is a significant positive relationship between audit committee accounting expert and quality of financial report in the Nigerian Banking Sector in term of relevance and reliability. Among the three types of financial expertise subjected to analysis, that is accounting, finance and supervisory expertise on the quality of financial report measured by relevance (ADLAG) and reliability (TAQ), it could be seen that, accounting expertise exerts more impact on quality financial reporting compare to finance and supervisory expertise.

In addition, the Table 8 also clearly demonstrates that only accounting expert can effect positive changes when looking at the combinations of relevance and reliability of the financial statement as shown in Table 8. The implication of this is that, accounting expert in the audit committee can significantly reduce the number of days of releasing financial report by paying more attentions to complex issues that could delay the release of the report. It could also reduce accruals by bringing its professionalism to bear, knowing full well the area(s) to ask relevant questions and knotty area(s) which would necessarily have been overlooked by non-accountant.

The findings in this study therefore lend credence to the Nigeria Security and Exchange Commission's Code (2011) position on the audit committee structure. The code specifically stipulates that at least, one member of the audit committee must knowledge of accounting and should be a professional accountant who can monitor the firm's financial reporting system that involved complexities of financial data. This finding support the assertion of Agrawal et al. [18]; Dhaliwal et al. [15] that audit committee accounting expertise is positively associated with accruals quality, suggesting that the specialized skills possessed by accounting experts make them more effective in executing the audit committee's primary responsibility of ensuring higher quality financial reporting.

In the light of the above, one of the implications of the findings in this study is that regulatory agencies should do more than what it is now in term of enforcement and compliance with SEC Code of 2011. Having an accounting expert on the audit committee board will enhance its effectiveness and create forum for robust and intellectual discussion with the management. Apart from assisting in the internal control, risk assessment and mediating between the management and the external auditors, its presence would also boost the confidence of shareholders/investors in the firm and also attract foreign investors.

However, as seen presently in Nigeria, the policy statement that addresses the issue of audit committee members was silent on the quality of members that should be included especially in the Company and Allied Matters Act 1990 (hereafter CAMA). Ojeka et al. [14] posited that, the Company and Allied Matters Act 1990 (hereafter CAMA) stipulates the composition of audit committee only in term of numbers without any provision to its effectiveness or how it can be made productive [33,34]. The inclusion of audit

committee accounting expertise was also not mentioned. As noted in Ojeka et al. [5], the audit committee as presently constituted in Nigeria would find it difficult to interpret International Financial Reporting Standard (IFRS) based report, hence, the importance of the inclusion of an accounting expert in the audit committee [35-38].

Though, audit committee accounting expert inclusion was the major reform in the SEC Code 2011, the enforcement and the declaration of the member's bio-data in the annual financial report that could aid investor's decision has not been emphasized [39]. This study therefore, recommend that strong measures be put in place to ensure compliance and drive to make the audit committee more relevant and apt in responding to issues that border on protecting stakeholders' interests with strong emphasis on the inclusion of accounting experts. In addition, firms should also endeavor that most of the members in the audit committee are accounting experts [40]. This would help in reducing agency costs that would have been borne if those services are outsourced.

There are enormous benefits and strength that could be drawn from the findings, especially when one considered the importance of financial sector to Nigerian economy [41]. However, just like other studies; there are limitations that warrant that, the interpretation of the findings should be drawn with caution. The limitations therein are looked at as window for further research studies. First, the study only considered only the listed money deposit banks with complete financial report for the period of study. In addition, the study only made use of Panel Least Square Statistical Techniques. Further studies could consider other financial institutions and also consider using more robust statistical techniques.

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