

Audit Committee and Financial Reporting Quality of Listed Insurance Firms in Nigeria

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Abstract

The aim of this study is to examine the impact of audit committee attributes on the financial reporting quality of listed insurance companies in Nigeria. The research employed an ex-post-facto design. Empirical analysis was conducted on 13 listed insurance firms in Nigeria over the period of 2012-2016. The proxy of the dependent variable of the study which is financial reporting quality is total accruals while the independent variables of the study were audit committee size, audit committee composition, audit committee meetings and audit committee gender diversity. Using ordinary least squares (OLS) multivariate regression analysis, the study observed that audit committee meetings and audit committee composition has no impact on firm financial reporting quality. On the other hand, audit committee size and audit committee diversity have a positive impact on firm financial reporting quality. The control variable (size) is found to be strongly related with financial reporting quality. The paper recommended that the board of directors of insurance companies should take measures directed towards increasing the number of audit committee size and ensure richer gender diversity in the audit committee. Such will have a positive impact on financial reporting quality of insurance companies. It is also recommended that policy makers like the financial reporting council of Nigeria (FRCN) and Securities and Exchange Commission (SEC) should review their code of corporate governance to increase the size of audit committee and encourage gender diversity in the composition of audit committee.

Keywords: *Audit Committee Attributes, Financial Reporting Quality, Total Accruals.*

Introduction

Financial reporting is an avenue through which the management communicates the company's performance with people outside the organization. The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity (IASB, 2010). Herath and Albargi (2017) opined that, to achieve this level, financial reports must be faithfully represented, comparable, verifiable, relevant, timely and understandable. As it is defined in the conceptual framework for financial reporting of the FASB (USA), IASB (UK) and others, there are agreed upon elements of high quality financial reporting.

Audit committee serves as a liaison between the external auditor and the board of directors, and facilitates the monitoring process by reducing information asymmetry between the external auditor and the board (Eyenubo, Mohammed & Ali, 2017). The primary responsibilities of Audit committee are to oversee the financial reporting, auditing processes and monitor management tendencies to manipulate earnings and other accounting malpractices (Salawu, Okpanachi, Yahaya & Dikki, 2017). Edogbanya and Kamardin (2015) have characterized a loose system of corporate governance as the major

cause of massive collapses of high profiled companies both in Nigeria and at global level. Several cases of corporate scandals have been recorded such as Enron & world com scandals in USA, Cadbury in Nigeria and many other cases at global level where bad corporate governance was held largely to blame. These call for the urgent need for more profound, robust and sound system of corporate governance to be put in place to address the devastating issue. Efforts have been made to address issue, such as the enactment of the Sarbanes-Oxley Act in July, 2002 in the USA, the Higgs and Smith Reports in 2003 in the UK and other follow-up reports that together make up the code (ICAN, 2014).

In Nigeria, there was the code for corporate governance issued by the security and exchange commission which requires all public companies whose securities are listed on a recognized security exchange shall complied with the principles and provisions of the code and that the code shall form the basis of minimum standard of their corporate behavior (ICAN, 2014). In the same vein, financial reporting council of Nigeria (FRCN) approved the Nigerian code of corporate governance (NCCG) 2018. The code is aimed at companies of varying sizes and complexity across industries. National insurance commission also issued Code of corporate governance for insurance

industry in Nigeria 2009. Some of the recommendations made include the establishment of board committees such as risk committee and audit committee to explicitly state their functions and duties. Mbobo and Umoren (2016) opined that corporate scandals have heightened the search for mechanisms that would enhance the quality of corporate financial reports 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 (Mbobo & Umoren, 2016). This is because audit committees are often seen as having the potentials of reducing the chances of fraud and fraudulent practices, thus enhancing the quality of financial reporting.

The insurance industry is a highly specialized industry that gives greater security to the fortunes of common people and among the whole society (Chijoke, 2013). The primary objective of insurance is to create an avenue in which possible future risk can be hedge. Insurance companies as one of the financial intermediaries play an important role in economic development of any country. They are the main risk management tool for companies and individuals; through issuing insurance policies, they collect funds and transfer them to deficit economic units for financing real

investment (Micheal, 2012). Financial reporting quality is important for the capital market and accounting information users because it enhances their confidence in gauging a firm's financial performance (Feng, 2014). However, despite the important role of comparability in financial reporting, there is very limited research on accounting comparability, mainly due to the lack of a valid empirical measure. Most of the available literature concentrate on the role of accounting standards in the production of financial reporting quality, and consider accounting standards as the major determinants of reporting comparability (Ihsan 2016, Mathew 2015, & Suadiye, 2017)). These studies investigate how the adaption of International Financial Reporting Standards (IFRS) affects financial reporting quality. However, several studies argue that accounting standards alone cannot fully determine financial reporting outcomes such as comparability (Leuz, Nanda & Wysocki, 2003). Many studies have now began to focus on other factors beyond accounting standards that affect financial reporting quality, such as the incentives of preparers and auditors, enforcement mechanisms ownership structure (Samaila, 2014; Feng, 2014; Omin, Tuta & Shedrach, 2015; Ghafran, 2013 & Mwangi, 2018).

However, majority of these studies are conducted in developed economies. Empirical studies on the impact of

audit committee attributes on the quality of financial reporting in the Nigerian context are very scanty. The available studies were conducted in the banking industries and the findings of these studies were mixed findings. Studies such as Eyenubo, Mohammed and Ali, 2017; Salawu, Okpanachi, Yahaya and Dikki, 2017; Eriabie and Izedonmi, 2016; Mbobo and Umoren, 2016; Moses, (2019) found that audit committee attributes have positive impact on financial reporting quality. Notwithstanding, studies such as Onyabe, Okpanachi, Nyor, Yahaya and Mohammed, 2018; Ormin et al. 2015; Samaila, 2014; Chukwu and Nwabochi, 2019; revealed that audit committee attributes do not have significant impact on financial reporting quality. It is as a result of the dearth of the literature on audit committee attributes in Nigeria, that the need to address the inconsistency of findings in the literature and the importance of audit committee to the efficient operation of Nigerian insurance companies that this study aimed at investigating the impact of audit committee attributes on the financial reporting quality of listed insurance companies in Nigeria. In order to achieve this objective, the following questions are raised:

1. Does audit committee meeting impact on financial reporting quality of listed insurance companies?
2. Does audit committee composition impact on financial reporting

quality of listed insurance companies?

3. Does audit committee size impact on financial reporting quality of listed insurance companies?
4. Does audit committee gender diversity impact on financial reporting quality of listed insurance companies?

The paper comprises of five sections. The first section is an introduction, followed by a literature review. The third section states the methodology of the paper. The fourth section is about results and discussion of data, whereas the last section concludes the paper.

Literature Review

Financial Reporting Quality

Financial reporting is the critical and significant mechanism employed by the management to achieve their stewardship function to shareholders and providers of finance. According to Mwangi (2018) financial reporting is a two-party transaction in which the issuers of the financial reports provide the report to the users, who in turn use the reports with the expectation that they will help them enhance their financial decisions.

According to Barde (2009) as cited in Samaila (2014) financial reporting entails disseminating accounting information to furnish current and potential users to enable them assess financial position and cash flow potentials of the firm. The objective of financial reporting is to provide

financial information on the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers.

As a result of the valuable role that financial reports play in facilitating decision making of users, it is important that the reports should possess some unique characteristics that make it qualitative. Ghafran (2013) maintained that qualitative financial reports are the fulcrum that support effective decision making.

Mwangi (2018) maintained that Financial reporting quality is a subtle concept in the corporate governance literature, hence, there is no consensus so far among researchers on how best to define and measure it. Robinson and Jackson (2009) define financial reporting quality as the precision with which financial reporting conveys information about the firm's operations or compliance of accounting standards of a particular country, or the extent to which the published financial statements and related disclosures capture the essence of the operations and financial position of the reporting entity.

In another dimension, Jonas and Blanchet (2000) advocated two general approaches that are widely used in the assessment of financial reporting quality. The first perspective relies on the needs of users. Under this approach, Mwangi (2018) maintained

that quality of financial reporting is determined on the basis of the usefulness of the financial information to its users. The second approach of financial reporting quality is focused on the notion of shareholder/investor protection. Users' needs perspective is mainly concerned with the provision of relevant information to users for making decisions.

As a result of these avalanches of views, most contemporary studies have focused on the indicators of quality financial reporting in defining financial reporting quality. They rather used the presence of these factors as evidence of a breakdown in the financial reporting process or low-quality financial reporting (Xie, Davidson & Dadalt, 2003 and Abbott, Parker & Peters, 2004).

The International Accounting Standard board in its Conceptual Framework for Financial Reporting (2004) maintained that there are agreed upon elements of high quality financial reporting. The qualitative characteristics of financial reporting quality include: relevance, faithful representation, understandability, comparability, verifiability, and timeliness.

They are divided into fundamental qualitative characteristics and enhancing qualitative characteristics. A theoretical explanation for each of these terms emphasizes their importance as qualitative characteristics, and also indicates what

qualities are considered fundamental among different frameworks.

Qualitative Characteristics of Financial Reporting Quality

The qualitative characteristics of financial reporting as contained in the framework of the international accounting standard board (IASB) are relevance, reliability, comparability, understandability, timeliness and faithful representation.

Relevance is closely associated with the terms usefulness and materiality. Relevance illustrates the capability of making decisions by users. When information in financial reports influences users in their economic decisions, it is said that this information has the quality of relevance. Also, when this information assists users to evaluate, correct, and confirm current and past events, it is useful. The usefulness of making a decision as an important part of relevance is consistent with the conceptual framework (Cheung, Evans, & Wright, 2010). Fair value is considered one of the highly significant indicators of relevance. Using Fair Value in an entity, as a basis for measurement, is an indicator of a high level of relevance in financial reporting information (Beest, Braam, & Boelens, 2009).

Reliability is another critical factor of financial reporting quality. In financial reporting, information must have the quality of reliability in order to be

useful. This quality is achieved when information, which users depend upon, is free from bias and material mistakes. Reliability is analyzed based on the qualities of faithful, verifiable, and neutral information (Cheung et al. 2010).

Comparability is the concept of allowing users to compare financial statements to determine the financial position, cash flow, and performance of an entity. This comparison allows users to compare across time and among other companies in the same period. As Cheung et al. 2010) remarked, Comparability demands that identical events in the two situations will be reflected by identical accounting facts and figures, different events will be reflected by different accounting facts and figures in a way which quantitatively reflects those differences in a comparable and easily interpretable manner (Cheung et al.2010).

To indicate this point, the notes in financial reports should disclose and explain all the changes in accounting policies and the implications of these changes, not to mention the importance of consistency in applying accounting policies and principles. Also, the current accounting period results can be compared with the ones from previous periods. Lastly, presenting financial index numbers and ratios contributes to the comparison with other organizations (Beest et al.2009).

Understandability is one of the essential qualities of information in financial reports. Achieving the quality of understandability is through effective communication. Thus, the better the understanding of the information from users, the higher the quality that will be achieved (Cheung et al. 2010). It is one of the enhancing qualitative characteristics that will increase when information is presented and classified clearly and sufficiently. When annual reports are well organized, users can comprehend what their needs are (Beest et al. 2009). Usage of graphs and tables helps to present information clearly, and the usage of language and technical jargon can be followed easily.

Timeliness is another enhancing qualitative characteristic. Timeliness illustrates that information must be available to decision makers before losing its powerful and good influences. When assessing the quality of reporting in an annual report, timeliness is evaluated using the period between the year-end and the issuing date of the auditor 's report the period of days it took for the auditor to sign the report after the financial year end (Beest et al.2009).

Faithful representation is the concept of reflecting and representing the real economic position of the financial information that has been reported. This concept has the value of explaining how well the obligations and economic resources, including

transactions and events, are fully represented in the financial reporting. Moreover, this quality has neutrality as a sub notion which is about objectivity and balance. According to Willekens (2008), researchers concluded that the auditors 'report adds value to financial reporting information by providing reasonable assurance about the degree to which the annual report represents economic phenomena faithfully. Additionally, how business organizations are controlled and directed affects the faithful presentation quality; this, in fact, is represented as a corporate governance factor when there is extensively disclosed information on corporate governance issues in the annual report (Beest et al. 2009). Besides, the annual report clarifies assumptions and estimates and explains the usage of the accounting principles in the company clearly.

This study subscribes to the notion and common believe that the best way to define financial reporting quality is to focus on the specific quality indicators such as relevance, reliability, comparability and understandability.

Audit Committee

Audit committee is one of the board committees required for firms quoted on the floor of Nigerian stock exchange (NSE) in line with listing requirements of the Securities and Exchange Commission (SEC) and the

national code of corporate governance (2018). The existence of audit committee under the board of directors is also recommended by OECD (2014).

The Nigerian code of corporate Governance (2018) issued by the financial reporting council of Nigeria provided that the main responsibilities of the committee shall be to ascertain whether the accounting and reporting policies of the Company are in accordance with legal requirements and agreed ethical practices. More so, the committee shall

Exercise oversight over management's processes to ascertain the integrity of the Company's financial statements, compliance with all applicable legal and other regulatory requirements, and assess the qualifications and independence of the external auditors, and the performance of the Company's internal audit function as well as that of the external auditors.

Furthermore NCCG (2018) provides that the committee should ensure the development of a comprehensive internal control framework for the Company, obtain appropriate (internal and/or external) assurance and report annually in the Company's audited financial report, on the design and operating effectiveness of the Company's internal controls over the financial reporting systems.

In the context of securing a high financial reporting quality, According

to Mbobo & Umoren (2016) Prior studies like 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. This is because audit committees are often seen as having the potentials of reducing the chances of fraud and fraudulent practices, thus enhancing the quality of financial reporting. Mwangi (2018) maintained that improved financial reporting quality has been cited as one of the major benefits for companies establishing audit committees. Studies of Baxter and Cotter (2009), Davidson, Godwin-Stewart, and Kent (2005), Yang and Krishnan (2005), and Abbott, Parker, and Peters (2004) affirmed to the above proposition

Audit committee Attributes

The Literature on Board Committees formation has suggested that the effectiveness and proper functioning of a Committee essentially depends on Committee characteristics (Akhtaruddin & Haron, 2010). As such, the ability of an audit committee to effectively and secure transparent financial reports that allow stakeholders make reliable decisions is a function of the committees functional and demographic characteristics. These characteristics include Size, financial expertise, gender diversity, composition and meetings. Notwithstanding, Audit committee financial expertise was dropped as all

listed companies in Nigerian stock exchange are required by SEC listing rule to ensure that their audit committees are incorporated with at least two members that have requisite knowledge of accounting, finance and financial reporting. Thus, the need to explore other audit committee attributes that influence reporting quality.

Empirical Review of Literature and Hypothesis Development

Audit Committee Composition and Financial Reporting Quality

According to DeZoort et al. (2002) an independent audit committee promotes the best interests of corporate stakeholders. Mwangi (2018) maintains that Independence has been accepted as a good practice in corporate governance, but it still remains one of the most common variables in the audit committee research literature. However, in many aspects the audit committee independence literature produced mixed results which failed to prove the fulfillment of expectation on independent directors safeguarding the interests of investors.

Study conducted by Eriabie, and Izedonmi (2016) revealed that independent audit committee have positive impact on financial reporting quality. The findings of an investigation conducted by Moses (2019) revealed that audit committee composed more of independent members have positive effect on

financial reporting quality. Beasley, Carcello, Hermanson and Neal (2000) found companies that committed fraud had less independent audit committees compared to their counterparts that did not commit fraud. Klein (2002) found that audit committee independence was negatively associated with abnormal accruals and that reductions in audit committee independence were associated with large increases in abnormal accruals.

On the other hand, Ogoro and Simiyu (2015) found a significant negative relationship between audit committee independence and committee effectiveness. These results are consistent with those of Plumlee and Yohn (2010) who did not find any association between reduced financial statement restatement and the existence of majority independent directors. These mixed findings mandate this paper to formulate the first hypothesis of the study:

H0₁: Audit Committee composition has no positive impact on the financial reporting quality of listed insurance firms

Audit Committee Size and Financial Reporting Quality

The size of the audit committee is an important factor in enhancing financial reporting quality as larger audit committees are likely to have the advantage of relying on a wider knowledge base and varied expertise

and thereby undertake their role more effectively (Vafeas, 2000).

The evidence provided by empirical studies is rather interesting on the association between audit committee size and financial reporting quality. Prior studies such as Hoitash and Hoitash (2009) Zaman *et al.* (2011) found a positive association between the audit committee size and financial reporting quality. In the same vein, studies conducted by Chukwu and Nwabochi (2019) and Eriabie and Izedonmi (2016) portrayed positive association between audit committee size and financial reporting quality. On the other hand, Yang and Krishnan (2005) and Kent *et al.* (2010) found a negative association between audit committee size and earnings management. Some studies such as that of O'Sullivan (1999); Abbott *et al.* (2004) and Baxter & Cotter (2009) show no significant association between audit committee size and financial reporting measures. As such, the study forms the second hypothesis as follows:

H0₂: Audit Committee size has no positive impact on the financial reporting quality of listed insurance firms

Audit Committee Meeting and Financial Reporting Quality

It was argued by Menon & Williams (1994) that for audit committees to be effective monitors, it is not enough just to be independent and that they must be active. Being active could be

measured by the frequency of their meetings. The number of audit committee meetings is a perceived indicator of audit committee effectiveness.

The findings of an inquiry conducted by Eriabie and Izedonmi (2016) revealed that audit committee have positive impact on financial reporting quality. In the same vein, Xie *et al.* (2003) found that increased audit committee activity (the number of committee meetings) is associated with reduced levels of earnings management and therefore engendering a high financial reporting quality. Bryan, Liv and Tiras (2004) posited that audit committees that meet regularly improve the transparency and openness of reported earnings and therefore improve earnings quality.

In contrast, Vafes (2005) found a negative relationship between the number of meetings and earnings management. Bedard, Chtourou and Courteau (2004) and Lin *et al.* (2006) did not find any positive association between frequency of audit committee meetings and financial reporting quality. Study carried out by Samaila (2014) discovered that audit committee meeting have significant but negative effect on financial reporting quality. Investigation conducted by Chukwu and Nwabochi (2019) revealed negative but significant association between audit meeting frequency and timeliness of corporate reporting.

This theoretical conundrum paves way for the formulation of hypothesis below:

H0₃: Audit Committee meeting has no positive impact on the financial reporting quality of listed insurance firms

Audit Committee Diversity and Financial Reporting Quality

Gender diversity in an audit committee is an important characteristic. This is because different genders have different attitudes and ethical conduct in performing their duties. Bilic and Sustic (2011) found that women are more ethical in performing their duties than men. The presence of women on the board enhances the ability of the business to run healthily and a female presence is considered as a complement to the male directors. Huang et al. (2011) argues that women are more sensitive to establishing communications and helping others, hence, are less likely to do unethical actions such manipulation of earnings, timeliness lag in reporting financial information, withholding vital information and reporting over ambitious income. Huang, Baruwa, Davidson & Thiruvadi (2010) found that Audit committees that have at least one female director function differently than all male audit committees. In contrary, study carried out by Chukwu and Nwabochi (2019) revealed that audit committee gender diversity has a negative but insignificant impact on timeliness of corporate financial reporting. On the

basis of the above, the last hypothesis of the study is formulated as thus:

H0₄: Audit Committee Diversity has no positive impact on the financial reporting quality of listed insurance firms

Proxies for Measuring Financial Reporting Quality

Accrual Based Model:

Accruals basis accounting recognizes transactions and other events and circumstances in the period in which those effects occur, even if the resulting cash receipt and payment occur in different period (ICAN, 2014). Herath and Albarqi (2007) opined that, accrued estimations of generated revenues or derived costs might be more than the cash that is actually collected from revenues or paid for costs. Accruals model is based on the concept of earnings management which is described as management manipulation of the financial reporting process with the aim of obtaining some private benefits (Schipper, 1989). Accruals based model focuses on the entity's cash flow in relation to total accruals. The more variability between the accruals and the cash flows in an entity during the operation cycle, the lower the entity's Accrual Quality and the lower the quality of the entity's financial reporting. A major advantage associated with total accruals is that, financial reporting quality can be determined based on the information in the annual report. However, accruals-based model has been criticized for its

failure to distinguish between discretionary and non-discretionary accruals.

Conservatism

Basu (1997) opined that conservatism is applied where there is news by requiring higher degree of verification for recognizing good news compared to bad news. Conservatism call for the delay in income recognition compare to expense recognition. Watts (2003) opined that accounting conservatism brings down the tendency of the management's ability to manipulate earnings. Conservatism has the potential to usefully affect strategies of firms, reduces the chance for opportunistic payment to the managers and forces the management to report losses sustained from selling out assets (Kordlour, Mohammad, Naghshineh & Tozandejani, 2014).

Value Relevance Model:

Value relevance model measure the quality of financial reporting information by comparing the accounting figures and stock-market reaction. Value relevance model measures financial reporting quality from the stand point of investor's accurate valuation of the firm value based on information disclosed in the financial reports (Omin, Ibrahim & Shedrach, 2015). However, the model is identified with a distinction problem between relevance and reliability.

Financial Information Model

Financial information model considers both financial and non-financial information in measuring in measuring financial reporting quality. The quality of financial report is measured using an in-depth analysis of both financial and non-financial information (Samaila, 2014).

Qualitative Characteristics Model:

Financial information is expected to possess certain characteristics for it to serve the purpose for which it is. Qualitative characteristics model operationalized qualitative characteristics by design assess the qualities of the different aspects and dimensions of financial and non-financial information of financial reports in order to determine their decision usefulness (Beest et al. 2009). By equally weighing the fundamental qualitative characteristics, the standardized scores of the fundamental qualitative characteristics are calculated by adding the standardized scores of relevance and faithful representation and dividing them by two (Herath & Albarqi, 2007).

Theoretical Framework

Agency Theory

Proponents of agency theory argue that ownership and control separation lead to moral hazard problems, where agents act to obtain personal benefits at the expense of shareholders. To curtail such behavior, effective control by the board would greatly help. The effectiveness of the

board monitoring depends among others, on sub-committees of the Board (Kibiya, Che-Ahmad & Amran, 2016). Also, Shi and Zhou (2012) argue that, audit committee as a sub-committee and their financial expertise are found to affect the level of the way managers manipulate earnings to achieve corporate (general) or personal benefit. Similarly, Dhaliwal, Naiker and Navissi (2010) posit that the ability to adequately supervise the activities and constrain opportunistically managed earnings lies with effective internal corporate governance mechanisms. Internal governance mechanisms involve among others, the formation of an independent audit committee that would supervise the activities of managers and ensure strict compliance with the financial regulations. However, the effectiveness of the committee depends on its composition and the expertise of its members. Also, the impact of high status industry experience (Kibiya, Che-Ahmad & Amran, 2016), accounting expertise and accounting and industry experts (Cohen *et al.*, 2014) have been subject to conflicting findings.

Stakeholder Theory

Lennard (2007) noted that Stewardship contributes an important dimension to financial reporting, which should be reflected by specific acknowledgement in the objectives of financial reporting. Moreover, stewardship should not be characterized simply as information to assist an assessment of the competence

and integrity of „stewards“ (i.e. management, directors) but as the provision of information that provides a foundation for a constructive dialogue between management and shareholders. Europe (2007) focused on stewardship/accountability as an objective of financial reporting. The findings revealed that stewardship/accountability has implications for financial reporting. The author further suggested that shareholders look to financial reporting to access information relating to management’s stewardship of the business.

Stewardship Theory

Stewardship theory is based on a model of man where a steward perceives greater utility in cooperative, pro-organizational behavior than in self-serving behavior; the theory assumes a strong relationship between organizational success and a principal’s satisfaction (Mwangi, 2018). The theory further assumes that, given a choice between self-serving behavior and pro-organizational behavior, a steward will place higher value on cooperation than defection. Stewards are assumed to be collectivists, pro-organizational, and trustworthy. This theory stipulates that a manager’s objective is first to maximize the firm’s performance because a manager’s need of achievement and success are met when the firm is doing well (Samaila, 2014).

Audit committee members are serving the generality of the stakeholders rather than a particular principal or principal to agent relationship. Therefore, based on the relevant theories discussed above, this study is best explained by the stakeholder theory developed by Freeman (1968).

Methodology

This paper adopts an ex-post facto non-survey research design to investigate the impact of audit committee attributes on financial reporting quality of listed insurance firms in Nigeria. The period of study is 5 years from 2012-2016 based on the availability of audit committee information in the annual reports of the research working population. The study places emphasis on panel historical data that will be sourced through the annual reports of companies.

Research Design

This study used an ex-post facto research design. Ayagi (2014) maintained that this design is appropriate when the independent variables that serve as predictors to the dependent variable have already taken place as in this study. The usage of this method in the context of investigating the impact of audit committee attributes on financial reporting quality is consistent with Samaila (2014) and Mwangi (2018).

Population

The population of the study consists of the totality of listed insurance firms in Nigeria. There are currently 30 insurance firms that are listed on the floor of the Nigerian stock exchange (NSE Fact book, 2016). The population is presented in table 1 below:

S/N	Company	Year of incorporation	Year of listing
1	African Alliance Insurance Plc	1960	2008
2	Aiico Insurance	1970	1990
3	Cornerstone Insurance Plc	1991	1997
4	Consolidated Hallmark Insurance Plc	1991	2007
5	Continental Re-insurance Plc	1985	2000
6	Crusaders Insurance Plc	1970	1990
7	Custodian and Allied Insurance Plc	1991	2006
8	Equity Assurance Plc	1984	1985
9	Goldlink Insurance Plc	1992	2008
10	Great Nigeria Insurance Plc	1960	2005
11	Guarantee trust Insurance Plc	1989	2009
12	Guinea Insurance Plc	1958	1991

13	International Energy Insurance Plc	1969	2007
14	Lasasco Assurance Plc	1979	1991
15	Law Union Rock Insurance Plc	1969	1990
16	Linkage Assurance Plc	1991	2003
17	Mansard Insurance Plc	1989	2009
18	Mutual benefit Assurance Plc	1995	2002
19	Nem insurance Plc	1970	1989
20	Niger insurance Plc	1962	1989
21	Oasis Insurance Plc	1992	2007
22	Prestige Assurance	1952	1970
23	Regency Alliance Assurance Plc	1993	2007
24	Sovereign Trust Insurance Plc	1980	2006
25	Staco Insurance Plc	1994	2007
26	Standard Alliance Insurance Plc	1982	2003
27	Unic Insurance Plc	1965	1990
28	Unitykapital Assurance Plc	1973	2007
29	Universal Insurance Plc	1961	2007
30	Wapic Insurance Plc	1958	1990

Source: Developed by the Researcher using Nigerian Stock Exchange (NSE) Fact Book 2016/2017 (NSE, 2017).

Table 3.1 presents the total population of the study, out of which a working population is arrived at. The criterion used for deriving the working population is the availability of data

for the period under study that is 2012 to 2016. The insurance companies that met this criterion serve as the working population for this study and are presented in table 3.2 below:

Table 2 Working Population

S/N	Company	Year of Incorporation	Year of Listing
1	African Alliance Insurance Plc	1960	2008
2	Aiico Insurance	1970	1990
3	AXA Mansard	1991	2003
4	Cornerstone Insurance Plc	1991	1997
5	Consolidated Hallmark Insurance Plc	1991	2007
6	Continental Re-insurance Plc	1985	2000
7	Guinea Insurance Plc	1958	1991

8	International Energy Insurance Plc	1969	2007
9	Law Union Rock Insurance Plc	1969	1990
10	Linkage Insurance Plc	1991	2003
11	Mutual benefit Assurance Plc	1995	2002
12	Niger insurance Plc	1962	1989
13	Prestige Assurance	1952	1970

Source: Developed by the Researcher using Nigerian Stock Exchange (NSE) Fact Book 2016/2017 (NSE, 2017).

Sample and Sampling Technique

The whole working population presented in table 3.2 will be taken as sample for the study in view of the fact that the population is small and the data for the study are readily available from the Nigerian Stock Exchange, as well as, from the official website of the listed insurance firms. The census sampling technique in which all the elements of the population are considered will be employed as sampling technique. This is because the researcher believes that taking a smaller sample from the working population may limit the extent to which the findings of the study may be generalized to other insurance firms. This is consistent with Samaila (2014).

Variables of the Study and their Measurement

This study employed dependent, independent and explanatory variables in order to achieve its objectives.

Dependent Variable

The dependent variable of the study is financial reporting quality. The proxy of this variable is total accruals. This is because accruals can be

measured based on the information in the annual report. Moreover, the accrual focuses on earning which is relatively easy to collect data in order to measure it. This is calculated using the formula below as adopted from Choi and Pae (2011):

Total Accruals = profit before tax – Net cashflow from operating activities. The Total accruals according to Herath and Albarqi (2017) is considered as an efficient measure of financial reporting quality (FRQ). The usage of Total accruals is consistent with Kosal and Waseda (2010) and Jozam and Shafii (2015). However, it is in contrast with Samaila (2014) and Mwangi (2018) that employed the modified Jones model as a measure of financial reporting quality.

Independent Variables

The independent variables envisaged in the study are the audit committee attributes that serve as the measures of the effectiveness of the audit committee make up of listed insurance in Nigeria. The independent variables of the study and their measurement are given below:

Audit Committee Composition (ACC):

This is measured by the ratio non-executive Directors to the total number of directors in the audit committee. This is consistent with Ghafran (2013) and Mbobo and Umoren (2016).

Audit Committee Size (ACS):

This is measured by the number of individual directors in the audit committee. This is consistent with Abu, Okpeh, and Okpe (2016), Ghafran (2013) and Yatim (2009) but with slight modification.

Audit Committee Meetings (ACM):

This is measured by the total number of meetings by the audit Committee members in a financial year. This is consistent with Gahfran (2013) and Samaila (2014).

Audit Committee Gender Diversity (ACD):

This is measured by the relationship between the number of female directors in the audit committee and the number of total directors. This measure is consistent with Huang and Thiruvadi (2010) and Mwangi (2018).

Control Variables

According to Gujarati et al (2009), control variables are used in research in other to take care of random variations that may be caused by other variables that are not captured within a research framework.

This study employs size as control variables. This is consistent with Kallamu (2015).

Sufian and Habibullah (2010) reported that size is significantly positively related with performance of finance and the also qualitative financial reporting. This could be due to their large market power which in turn mandates shareholders and other interest groups to push for more qualitative financial reporting.

Model Specification.

The econometric model employed in this study corresponds to what is predominantly found in the literature, such as the work Kallamu (2015) is given as:

$$Y = \beta_0 + \beta \text{Fit} + \epsilon_{it}$$

Where Y is the dependent variable; β_0 is constant; β is the coefficient of explanatory variable; Fit is the explanatory variable; and ϵ it is the error term (assumed to have zero mean and independent across the time period).

The regression model of the study was developed as follows using multivariate

Regression

$$FRQ = \beta_{0it} + \beta_{1ACSit} + \beta_{2ACCit} + \beta_{3ACMit} + \beta_{4ACDit} + \beta_{5SIZEit} + \epsilon_{it}$$

Where

FRQ = Financial Reporting Quality

β_{0it} : Regression intercept of insurance firms in period t

$\beta 1- \beta n$: Regression coefficient of variables

ACS= Audit committee size

ACC= Audit committee Composition

ACM= Audit committee meetings

ACD= Audit committee Diversity

ε = error term

Techniques of Data Analysis

The study employs four techniques of data analysis. These are descriptive summary statistics,

normality test, pairwise correlation and multiple regression analysis. The descriptive statistics and normality test serve as the pre-estimation test to describe the data set. The correlation analysis analyses the degree of association between the research variables while the regression analysis establishes the impact of the independent variables over the dependent variable.

Results and Discussion

Descriptive Statistics

Table 1. Descriptive Statistics

Variable	Mean	Std Dev.	Min	Max
Frq	-182000000	117000000	-72200000	242000000
Acm	3.8	.971468	1	7
Acc	.5416923	.1106313	0.4	1
Acs	5.246154	1.015978	4	9
Acd	.2249231	.0986966	0	0.5
Size	7.375385	.7736522	6.6	9.87

Source: Computed By the Author Using (STATA Version, 12)

Table 4.1 above shows the result of summary descriptive statistics on the research variables. The summary statistics provides the pattern of data distribution of the research variables. It could be seen that FRQ has a mean of -1.82 indicating that the average financial reporting quality of listed insurance firms in Nigeria is negative. More so, the maximum FRQ is 2.82 while the minimum FRQ is -7.22. The

average Audit committee meeting is 3 while the maximum meeting is 7. This implies that most listed insurance firms hold less than 4 statutory meetings a year. Audit committee composition has a mean of value 0.54 with a maximum value of 1. More so, Audit committee size has a mean value of 5 and maximum value of 9, while gender diversity has 0.22 as a mean value.

Correlation Analysis

Table 4.2 Correlation Matrix

Variable	Frq	Acm	Acc	Acs	Acd	Size
FRQ	1.0000					
ACM	0.0129	1.0000				
ACC	0.1788	-0.1073	1.0000			
ACS	0.0962	-0.0127	-0.0900	1.0000		
SIZE	-0.3699	-0.0320	0.3182	0.2464	-0.0847	1.0000

Source: Computed By the Author Using (STATA Version, 12)

The table above shows the result of pairwise correlation analysis between the research variables. The correlation analysis shows the level of association between the research variables. The highest correlation is 0.3 between audit committee size and audit committee Composition. This indicates a positive

and significant correlation. All the audit committee attributes have a positive correlation with FRQ with the exception of audit committee composition. The highest negative correlation is between audit committee size and audit committee diversity to the magnitude of 0.4190.

Normality Test

Table 3: Skewness and Kurtosis Test for Normality

Variable	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
FRQ	0.0000	0.0000	64.05	0.0000
ACM	0.7224	0.0610	3.80	0.0000
ACC	0.0000	0.0010	21.83	0.0000
ACS	0.0128	0.0513	8.66	0.0131
ACD	0.6107	0.1246	2.73	0.2553
SIZE	0.0000	0.0001	33.49	0.0000

Source: Computed By the Author Using (STATA Version, 12)

The table above shows the test of normality conducted on the research variables. A value higher than 0.05 indicates that the data is insignificant and normally distributed. It could be inferred from the table that financial reporting quality proxy by total

accruals is abnormally distributed. Likewise, Audit committee size and size. On the other hand, audit committee diversity and meetings on other hand are insignificant implying that they are normally distributed.

Regression Analysis

Table 4.4: Test of Multicollinearity

Variable	VIF	1/VIF
ACD	1.39	0.720031
ACC	1.3	0.767126
ACS	1.28	0.778514
SIZE	1.23	0.81575
ACM	1.06	0.9472

Source: Computed By the Author Using (STATA Version, 12)

Table 4.4 above shows the result of multicollinearity conducted by the researcher. It could be seen that all the variables of the study have a VIF

coefficient of less than 10 indicating the absence of multicollinearity between the variables of the study.

Table 4.5: OLS Regression Result

						Prob > F	= 0.0290
						R-squared	= 0.18.62
FRQ	Coefficient	Robust Std Err	t	p> t	95% Conf.	Interval	
Acm	-2824807	1.45e+07	-0.19	0.846	-3.19e+07	2.62e+07	
Acc	-7.55e+07	1.45e+07	-0.53	0.596	-3.59e+08	2.08e+08	
Acs	2.75e+07	1.53e+07	1.80	0.078	-3139580	5.82e+07	
acd	1.48e+08	1.64e+08	0.90	0.371	-1.81e+08	4.77e+08	
Size	-5.98e+07	1.96e+07	0.90	0.003	-9.91e+07	-2.05e+07	
Cons	2.97e+08	1.61e+08	1.84	0.070	-2.55e+07	6.19e+08	

Source: Computed By the Author Using (STATA Version, 12)

The study employed a panel data. As such a panel regression based on fixed effect and random effect. Subsequently, a hausmann specification test was employed which give a result of 0.7079 prompting the researcher to employ the random effect results. The researcher then employed the langrangian multiplier which yielded a coefficient of 1.000 showing

that OLS regression is more appropriate.

The regression model had a Prob > F of 0.0290 Indicating the goodness of fit of the model. The R-square of the model which is the coefficient of determination was 18.62% indicating that 18% of the variation in the model is caused by the explanatory variables.

Audit Committee Composition and Financial Reporting Quality

From the regression matrix, it could be seen that ACC is negative and insignificant at 0.05 level of significance to the tune of -7.55. This shows that audit committee Composition has a negative and insignificant impact on the financial reporting quality of listed insurance firms in Nigeria. This reports the researcher to accept the first hypothesis of the study. This underscores that having a committee majorly comprising of non-executive directors may not improve the effective functioning of the audit committee. This contradicts the theoretical argument of the agency theory. This is in line with the findings of Klein (2002), Ogoro and Simiyu (2015), but inconsistent with Beasley, Carcello, Hermanson and Neal (2000).

Audit Committee Size and Financial Reporting Quality

In the regression table above, there is a clear evidence that ACS has a positive but insignificant impact on financial reporting quality of listed insurance firms in Nigeria. Impliedly, the second hypothesis of the study which states that ACS has no positive impact on financial reporting quality is rejected. This shows that when the number of directors in the audit committee increases, the financial reporting quality of listed insurance firms is expected to increase. This is in line with the agency theory and consistent with the findings of Hoitash

and Hoitash (2009), Zaman et al. (2011).

Audit Committee Meetings and Financial Reporting Quality

From the regression matrix, it could be seen that ACM is negative and insignificant at 0.05 level of significance. This indicates that audit committee meetings have a negative and insignificant impact on the financial reporting quality of listed insurance firms in Nigeria. As such, the third hypothesis encapsulated in the study is accepted. This underscores that regular meetings may not improve the effective functioning of the audit committee. This contradicts the theoretical argument of the agency theory. This is in line with the findings of Vafes (2005), Bedard, Chtourou and Courteau (2004) and Lin et al. (2006), but inconsistent with Xie et al. (2003) & Bryan, Liv and Tiras (2004).

Audit Committee Diversity and Financial Reporting Quality

In the regression table above, an attempt was made to investigate the impact of audit committee diversity on financial reporting quality. With a coefficient of 1.48, it is deduced that audit committee diversity has a positive and insignificant impact on financial reporting quality of listed insurance firms. This result is consistent with Baruwa, Davidson and Thiruvadi (2010).

Findings

Based on the results and analysis of data collected, the following findings are made:

1. Audit committee meeting has a negative and insignificant impact on financial reporting quality of listed insurance firms in Nigeria.
2. Audit committee composition has a negative and insignificant impact on financial reporting quality of listed insurance firms in Nigeria.
3. Audit committee size has a positive and insignificant impact on financial reporting quality of listed insurance firms in Nigeria
4. Audit committee diversity has a positive and insignificant impact on financial reporting quality of listed insurance firms in Nigeria.

Conclusions and Recommendations

Based on the basis of the above findings, the study concludes that audit committee meeting is not an important factor in the determination of financial reporting quality of listed insurance companies. It's the important issues discussed that affect the financial reporting quality of listed insurance companies rather than the number of meeting held. The study also concludes that the independence of audit is not a significant factor in the determination of financial reporting quality of listed insurance companies. That is to say, based on the finding of this study if the audit committee is independent the financial reporting quality is not going to increase.

Furthermore, the study concludes that, audit committee size is a very significant corporate governance attributes that improve the financial reporting quality of the listed insurance companies. That is to say, if the audit committee size of the listed insurance companies increases, there is an expectation that the financial reporting quality will also increase. However, the cost of the additional committee members should also be taking into consideration. Finally, the study concludes that audit committee diversity is a very significant factor in the determination of financial reporting quality of listed insurance companies. That more diversified the audit committee, the higher financial reporting quality of listed insurance companies.

This paper suggests a significant implication to practitioners and policy makers. The paper recommends that policy makers and board of directors of insurance companies should take all the necessary measures that will increase the number of audit committee members as it has a positive impact on financial reporting quality.

The paper also recommends that more studies should be conducted with longer time frame and in other sectors of the economy so as to validate the findings of this study and make contribution to the available body of knowledge

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