Global Journal of Auditing and Finance | *ISSN 1694-4445*
Published by AIR JOURNALS | *https://airjournal.org/gjaf*
16/18 Avenue des Longaniers, Quatre Bornes, Mauritius
airjournals@gmail.com; enquiry@airjournal.org

RESEARCH ARTICLE

Relationship Between Audit Committee Characteristics and Audit Quality of Deposit Money Banks in Nigeria

[1]Ezeugo, Cynthia Chiegeonu, [2]Prof. Uche B. Ugwuanyi, [3]Yawai Grace and [4]Ebisi, Lilian Njideka
[1,4]Department of Accountancy, Enugu State University of Science and Technology, Enugu
[2]Department of Banking and Finance, Enugu State University of Science and Technology, Enugu
[3]Air Force Institute of Technology Mando Kaduna

Accepted: July 17th, 2022	Published: July 31st, 2022

Citations - APA

Ezeugo, C. C., Ugwuanyi, U. B., Yawai, G., & Ebisi, L. N. (2022). Relationship Between Audit Committee Characteristics and Audit Quality of Deposit Money Banks in Nigeria. *Global Journal of Auditing and Finance, 4(2), 1-15.*

ABSTRACT

The study examined the relationship between audit committee characteristics and audit quality of deposit money banks in Nigeria. The study's specific objectives were to ascertain the relationship between audit committee size, audit committee meetings, audit committee expertise, and audit fees of deposit money banks in Nigeria. audit committee size, meetings, and expertise proxied audit committee characteristics, while audit fees were used to proxy audit quality. The study adopted an ex-post-facto research design, covering the period between 2010 and 2019. Secondary data were extracted from Nigeria's annual reports and accounts of sampled deposit money banks. Panel covariance techniques were used for data analysis. In line with the specific objectives of the study, the covariance analysis result revealed that audit committee size has a positive and strong relationship with the audit quality of deposit money banks in Nigeria. However, audit committee meetings and audit committee expertise have a positive and weak relationship with the audit quality of deposit money banks in Nigeria. The implication of the findings is that only audit committee size among the audit committee characteristics can be used to predict the audit quality of deposit money banks in Nigeria. The study, therefore, recommends that deposit money banks in Nigeria should maintain their audit committee size since it positively affects audit quality of the banks. They should also increase the number of times they meet during the financial year, and ensure that truancy is eradicated. Deposit money banks should inaugurate more accounting experts into the audit committee. This will go a long way in increasing the audit quality because of the accounting and audit knowledge of the board members.

Keywords: *Audit Committee Characteristics; Deposit Money Banks; Audit Quality*

1. Introduction

Audit quality is a guarantee given by the auditor of high-quality financial reporting which is a function of the company's financial reporting system and its inherent characteristics (DeFond and Zhang, 2014). Based on the Public Accountant Professional Standards (SPAP), the audit results are said to have good quality if they meet the provisions of the auditing standard including the professional quality of independent auditors used in conducting audits and preparing auditor reports. Good audit quality is expected to produce a quality company financial report, in which financial statements are needed by various parties, including investors and creditors in the context of decision making (DeAngelo, 1981). DeFond and Zhang (2014) opine that to get decisions that suit the needs of investors and creditors, good quality of audited financial statements is needed. So, the increase in quality of audits become urgent because with high audit quality it will produce high-quality financial reporting. This shows that audit quality is important and urgent for a company.

In practice, audit quality in Nigeria is still questionable. Nigeria has witnessed incidences of audit failure. The case of five banks that failed the Central Bank of Nigeria (CBN) stress test in 2009, Afri-Bank, Fin Bank, Union Bank, Intercontinental Bank and Oceanic Bank is relevant as their external auditors had given them clean reports just before the CBN examination.

The banks had many things in common. Firstly, they were certified distressed by CBN barely few months after their auditors had given them a clean bill of health. For example, CBN declared Union Bank (Nig) Plc. distressed barely six months after it had received an unqualified audit report from its external auditors. Secondly, the banks were saddled with non-performing loans which were grossly understated in their Financial Statements. In a related development, it has been observed that there were red flags in the Financial Statements of some of the banks including Union Bank Plc which consistently posted losses in the preceding years just before CBN intervention. Ande (2011) opine that the going concern status of the banks was in doubt. Again, the banks escaped going concern qualifications by their auditors.

Perhaps, the greatest audit failure in Nigeria in recent times is that associated with the Cadbury (Nig.) Plc. accounting scandal which came to the fore in 2006 (SEC, 2006). This scandal which has since been euphemistically dubbed Nigeria's Enron equivalent (in terms of its magnitude) drew the ire of the Nigerian Security and Exchange Commission (SEC) on the auditors of the company. The auditors were accused, among other things, of failure to exercise due diligence and lack of professional skepticism in carrying out the audit of the company (Uwuigbe, 2013). Other cases of alleged audit failures in Nigeria include Ile-Oluji cocoa products, Standard Printing and publishing company, African Petroleum Company, Lever Brothers and Union Dicon Salt (Otusanya & Lauwo, 2010; Bakre, 2007).

Audit failures are costly to investors, the auditors themselves and even the wider society as a whole. Enormous sums of money are lost every year by investors to fraud and corporate collapse. Hence, audit failure needs to be reduced drastically. To avoid audit failures, the corporate governance mechanism in place needs to be enhanced, especially the audit committee. Shi and Zhou (2012) argue that board audit as a sub-committee and their financial expertise are found to affect the level of the way managers manipulates earnings to achieve corporate or personal benefit. Similarly, Dechow, Ge, and Schrand (2010) posit that, the ability to adequately supervise the activities and constrain opportunistically managed earnings lies with effective internal corporate governance mechanism. Thus, internal governance mechanisms involve among others, the formation of independent audit committee that would supervise the activities of managers and ensure strict compliance with the financial regulations.

Statement of the Problem

Financial information users mostly rely on the information made available to them through company annual report for decision-making. The report is expected to be credible, reliable, relevant and acceptable to enable potential investors, lenders, and creditors in making informed decisions. Therefore, the financial report should provide full, timely, transparent and reliable financial information that is not deliberately prepared to mislead users.

Despite its importance, financial information may not always be credible and reliable because it may contain errors, deliberate manipulation of accounting numbers, as well as a misrepresentation of earnings, thus, question its credibility. Proponents of agency theory argue that ownership and control separation lead to moral hazard problems, where agents act to obtain their 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. Due to the common misleading audit reports, shareholders and investors are eager to know the board factors that determine the quality of an audit report.

Consequently, the study attempts to ascertain the relationship between audit committee characteristics and the quality of audit reports of deposit money banks in Nigeria. This is to provide the shareholders and investors with a yardstick to measure the audit quality of banks by evaluating the relationship between audit committee size, audit committee number of meetings, audit committee expertise, and quality of audit report.

Objectives of the Study

The main objective of the study was to evaluate the relationship between audit committee characteristics and audit quality of deposit money banks in Nigeria. The study must strive to achieve the following specific objectives:

i. Ascertain the relationship between audit committee size and audit fees of deposit money banks in Nigeria.
ii. Evaluate the nature and magnitude of relationship between number of meetings of audit committee and audit fees of deposit money banks in Nigeria.
iii. Investigate the association between audit committee expertise and audit fees of deposit money banks in Nigeria.

Statement of the Hypotheses

The following testable null hypotheses was formulated for the study:

i. Audit committee size does not have a strong relationship with audit fees of deposit money banks in Nigeria.
ii. Number of meetings of audit committee does not have a strong relationship with audit fees of deposit money banks in Nigeria.
iii. Audit committee expertise does not have a strong association with audit fees of deposit money banks in Nigeria.

2. Review of Related Literature

2.1 Conceptual Review

Audit Committee

The concept of the audit committee was originally recommended by the American Institute of Certified Public Accountants (AICPA) in 1967 that the establishment of an audit committee board to assist the reporting process. Bandiyono (2019) submits that the audit committee is part of the corporate governance mechanism by which Good Corporate Governance is implemented so that the company can achieve its objectives. Enofe, Aronmwan, and Abadua (2013) explained that the audit committee can be described as a corporate governance mechanism burdened with responsibility for ensuring quality reporting by performing the supervisory function of management activities and external auditors. In addition, the audit committee also helps reduce agency problems between management and the owner. Thus, the presence of the audit committee must produce quality and independent reporting. The Sarbanes Oxley Act (2002) define it as a committee formed by a board of directors to oversee the processes involved in the accounting and financial auditing of companies. According to Li, Mangena, and Pike (2012) the audit committee can be used as an effective tool to ensure the quality reporting process. Putra and Ratnadi (2018) opine that the establishment of an audit committee within the company is carried out with the aim to help the performance of the board of commissioners in carrying out the supervisory function of the company. However, if this must be achieved, the audit committee must have several characteristics such as committee size, frequent meetings, and financial experts.

Audit Committee Size

The audit committees' size is the number of audit committee members in a bank. Al-Musali, Qeshta, Al-Attafi, and Al-Ebel (2019) suggest that the control and monitoring function will increase with a larger number of audit committees because the broader view and expertise offered by the larger committee will enable audit committees to perform their monitoring roles better. The small number of audit committee member may be effective to affect financial performance because they more focus to discuss important financial issues faced by a company. Yah (2006) report a significant effect of audit committee size on the financial performance of the firm. Wu, Habib, and Weil (2012) find that audit committee with a smaller number of people are more effective to protect the interest of shareholders and to ensure the financial information quality. Moreover, audit committee with a larger number of people is not effective which in turn does not affect financial performance of the firm (Aldamen, Duncan, Kelly, Mcnamara, and Nagel, 2012).

Number of Audit Committee Meetings

The number of audit committee meetings is the number of meetings conducted by members of the audit committee each year. According to Al-Musali et al., (2019) the audit committee must be active in order for its tasks and objectives to be achieved. The activity of the audit committee is carried out by holding meetings. The more meeting, the more problems can be resolved. Menon and Williams (1994) state that the meeting frequency of audit committee is a measure of audit committee effectiveness. Bédard and Gendron (2010) argue that the more meetings are performed, the better indicator for audit committee members in achieving their goals. Agency theory state that the frequency of meetings is only useful for the company when its benefits more than its costs (Jensen & Meckling, 1976). Yet, previous research did not state the ideal number of audit committee meetings. Krismiaji, Aryani, and Suhardjanto (2016) suggest that an audit committee should meet at least four times a year. The frequency of meetings could enhance the earnings quality, identify a potential deception and increase firm's financial performance (Beasley, Carcello, Hermanson, & Lapides, 2000).

Audit Committee Expertise

Accounting or financial expertise are attributes, qualification or experience acquired by a person before becoming a board member of a company. Carcello, Hollingsworth, Klein and Neal (2006) document that, there is a reduction in the use of discretionary accruals and income increasing accruals when accounting expert is on the audit committee. Also, Xie, Davidson and DaDalt (2003) suggest that audit committee members need financial sophistication to curtail managers from engaging in earnings management practices. Further, Krishnan and Visvanathan (2007) argue that there is a positive association between accounting expertise and the ratio of audit committee members. Hence, the numbers of financial expertise on the audit committee reduces the level of fraudulent practices and strengthen the internal control process.

Also, Hoitash, Hoitash and Bedard (2009) document that firms with a high proportion of financial experts not necessarily accounting experts are unlikely to report weaknesses in the internal control over financial reporting. Consequently, Badolato, Donelson and Ege (2014) argue that it is not enough to have accounting/financial expert as a member of audit committees, but a combination of financial expertise and high status of the audit committee members.

Audit Quality

Arens, Elder, and Mark (2016) state that audit quality is a process carried out by auditors to ensure client companies follow applicable auditing standards, following special quality control procedures help to consistently meet the standards in their assignments until good quality results are achieved. In achieving good audit quality, it must be included by following established standards, namely general standards, fieldwork standards, and reporting standards. Some studies define audit quality with a variety of variations. DeAngelo (1981) says that audit quality is the possibility that auditors can detect violations in the client's accounting system and report these violations. But according to DeFond and Zhang (2014), the role of auditors is more than simple detection related to reporting. High-quality auditors are expected to consider not only whether the client's accounting choices are in accordance with technical rules, but also how well the financial statements reflect the company's actual economy.

Audit Fees

DeFond and Zhang (2014) argue that information about audit quality can be deducted from auditor-client contract features, such as audit fees. Audit fees are used to represent audit quality because they are expected to measure the level of auditor effort, which is an input to the audit process that is intuitively related to audit quality. The researchers further submit that the distinguishing feature of audit fees is that they are the result of both supply and demand factors. The auditor cannot unilaterally charge a higher fee for additional efforts unless there is an increase in client demand for additional efforts. As a result, audit fees are used in demand and supply studies. For example, in-demand studies, audit fees are often used to test whether audit committee competencies are associated with audit quality.

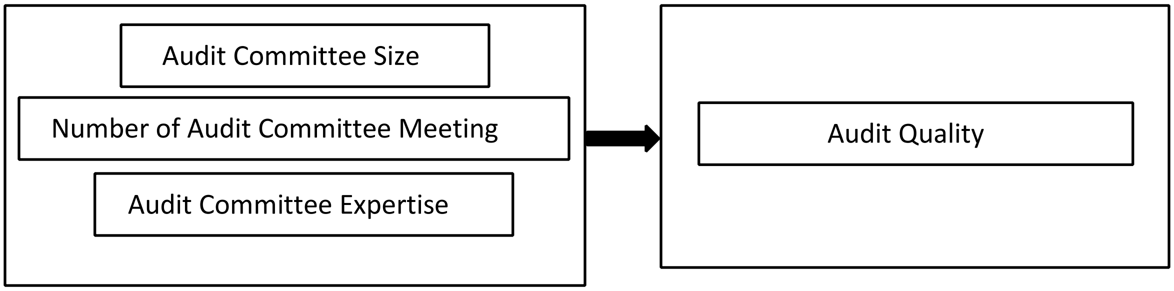


Figure 1. Conceptual Framework

2.2 Theoretical Framework

The study was anchored on Agency Theory by Jensen and Meckling (1976) as the theory underpinning the study.

Agency Theory (Jensen and Meckling, 1976)

Agency theory discusses the working relationship between the principal and the agent. Scott (2015) defines agency theory as a branch of game theory that studies a contract design to motivate agents to act on behalf of the principal when the agent's interests' conflict with the principal's interests. Agents are hired by principals to carry out duties in their best interests, such as delegating decision-making authority from principals to agents. Shareholders serve as principals and managers act as agents of businesses. Shareholders appoint managers to work in the best interests of the principal. However, in practice, company managers often pursue different priorities, which can clash with the shareholders' primary goals. The term "agency problems" refers to issues that arise from conflicts of interest between managers and shareholders. This conflict can then trigger agency fees.

Jensen and Meckling (1976) identify three forms of agency fees. To start, monitoring costs are the expenses incurred to oversee the agent's activities. Second, bonding costs are expenses incurred to ensure that the agent does not act against the principal, or to persuade the agent that the principal will reward the agent if the action is taken. Third, the residual cost is the monetary value equal to the principal's loss of prosperity as a result of the interest divergence. The implication of agency theory in this study is that the audit committee which is part of corporate governance has a supervisory function in ensuring that the financial statements issued by the company show the actual condition of the company. In addition, the audit committee has the authority to determine the incentives given to audit service providers to produce high audit quality.

2.3 Empirical Review

Emeh and Appah (2013) examined audit committee and timeliness of financial reports of 35 listed firms in the Nigerian Stock Exchange. Their results showed that audit committee independence (ACI) is significantly related to the timeliness of financial reports; Audit committee meeting (ACM) is not significantly related to the timeliness of financial reports; Audit committee expertise (ACE) is significantly related to the timeliness of financial reports and Audit committee size (ACS) is not significantly related to the timeliness of financial reports.

Wasonga and Omoro (2017) evaluated the effect of audit committee effectiveness and audit evaluation on audit quality. The OLS regression technique revealed that the independence of the audit committee, qualification of its members as reflected in the knowledge and expertise and the size of the committee improved the financial reporting quality.

Bouaine and Hrichi (2019) studied the impact of audit committee adoption and its characteristics on the financial performance of 100 French companies. The regression results indicated that the independence of the audit committee have a negative impact on the performance measured by ROE and ROA. The results also revealed that the size, financial, expertise and, the diligence of the audit committee have no impact on the financial performance of listed French companies when the performance is measured by ROE.

Similarly, Madawaki and Amran (2013) investigated the audit committee and financial reporting quality of 70 companies listed on the Nigerian Stock Exchange. The results of the panel regression and correlation analysis indicated that the formation of audit committees was positively associated with improved financial reporting quality. It was also indicated that audit committees with an independent chair and audit committee expertise were positively associated with financial reporting quality.

Wiralestari and Tazil (2015) studied the effectiveness of audit committees on the financial reporting quality of listed non-financial issuers on the Indonesian Stock Exchange. The multiple regression results revealed that the audit committee had a significant impact on financial reporting's quality of non-financial firms in Indonesia.

Handayani and Yustikasain (2017) analyzed corporate governance and audit report lags of listed manufacturing companies on the Indonesian Stock Exchange in 2013-2015. The result of the study showed that independent board of commissioners has no significant effect on audit report lags, the competence of Audit Committee members has a significant effect on auditor report lags.

Muhammad, Ayoib, and Noor (2016) investigated the effect of audit committee characteristics on the quality of financial reporting of Nigerian listed firms. The study employed multivariate regression analysis with a sample size of 101 and firms-year longitudinal panels of 505 observations of non-financial listed companies on the Nigerian Stock Exchange for the period 2010 to 2014. The results show that audit committee share ownership, and financial expertise are positive and statistically significant, indicating that audit committee monitoring mechanisms influence the financial reporting quality of listed non-financial firms in Nigeria.

Ohaka and Tom-Abio (2018) investigated audit committee independence and corporate financial reporting quality in Aluminum Corrugating Companies in Rivers State. Using correlation analysis, the study showed that audit committee independence significantly relates to corporate financial reporting quality in Aluminium Corrugating companies in Rivers State.

Raweh, Kamardin and Malik (2019) studied audit committee characteristics and audit report lag in Oman using data from 255 companies listed in the Muscat Securities market from 2013 to 2017. Multivariate analyses of their investigation showed that audit committee size positively associated with audit report lag and audit committee financial expertise reduces audit lag. However, their study did not find evidence that audit committee independence and meetings are associated with audit report lag.

3. Methodology

The study adopted an *ex post facto* (after the facts) research design. Asika (2005) opines that *ex post facto* research is expected to provide a systematic and empirical solution to research problems with historical concern. The research was conducted in Nigeria's banking sector economy. The study made use of secondary sources of data. Time series data from 2010 to 2019 were extracted from the annual report and accounts of the selected banks in Nigeria. The population of the study is the twenty-three (23) deposit money banks in Nigeria. These banks include Access Bank Plc, Citibank Nigeria Limited, Diamond Bank Plc, Ecobank Nigeria Plc, Fidelity Bank Plc, First Bank Nigeria Limited, First City Monument Bank Plc, Globus Bank Limited, Guaranty Trust Bank Plc, Heritage Banking Company Ltd, KeyStone Bank, Polaris Bank, Providus Bank, Stanbic IBTC Bank Ltd., Standard Chartered Bank Nigeria Ltd., Sterling Bank Plc, SunTrust Bank Nigeria Limited, Titan Trust Bank Ltd, Union Bank of Nigeria Plc, United Bank For Africa Plc, Unity Bank Plc, Wema Bank Plc, and Zenith Bank Plc. The study purposively selected five deposit money banks listed on the Nigerian Stock Exchange as the sample of the Study. These banks include Access Bank Plc, First Bank Nigeria Limited, Guaranty Trust Bank Plc, United Bank for Africa Plc, and Zenith Bank Plc. The selected banks are the leading banks in the industry judging by CBN CAMEL (Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity) rating of deposit money banks in Nigeria 2020. These banks combined also contribute more than 70% of market capitalization in the banking industry. The selection was made on the above judgment. The data was analyzed in the following sequence: Graphical representation of the dependent and independent variables to show the trend of movement within the study period. This can be used for predictions; Descriptive statistics to test the normality of the distribution and A covariance analysis was conducted to examine the relationship between selected audit committee characteristics and the quality of the audit report.

Model Specification

The models for this study are specified as follows:

$r=[1/(n-1)] \times \sum [(ACSIZE - \overline{ACSIZE})/S_{ACSIZE}) \times (AF - \overline{AF}) /S_{AF})]$ ………… (1) $r=[1/(n-1)] \times \sum [(ACM- \overline{ACM})/S_{ACM}) \times (AF - AF) /S_{AF})]$ ………. (2) $r=[1/(\cancel{n-1})] \times \sum [(ACE - \overline{ACE})/S_{ACE}) \times (AF - AF)/S_{AF})]$ …… (3)

Where;

n = number of observations in the sample

∑ = summation symbol

AF = the value of audit fees

$\overline{AF}$ = the sample mean of audit fees

SAF = the sample standard deviation of the audit fees

ACSIZE = the value of audit committee size

$\overline{ACSIZE}$ = the sample mean of the audit committee size

SACSIZE = the sample standard deviation of audit committee size

ACM = the value of the number of audit committee meetings

$\overline{ACM}$ = the sample mean of number of audit committee meetings

SACM = the sample standard of number of audit committee meetings

ACE = the value of audit committee expertise

$\overline{ACE}$ = the sample mean of audit committee expertise

SACE = the sample standard deviation of audit committee expertise

4. Data Presentation and Analysis

Data Presentation

Table 1: Cross-Sectional Data for Focal and Explanatory Variable

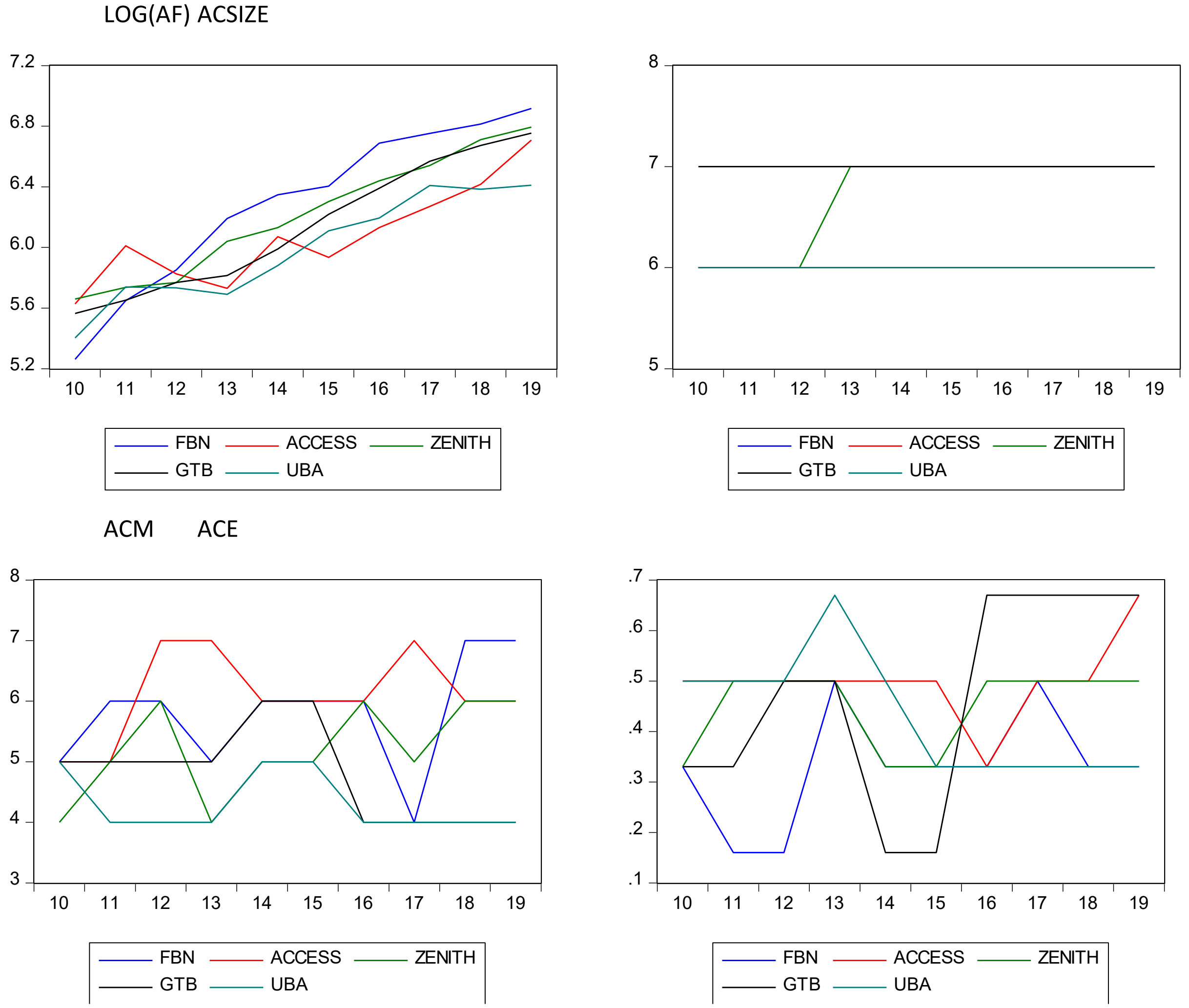
COMPANY	YEAR	AF	ACSIZE	ACM	ACE	EXPERTS
FBN	2010	193	6	5	0.33	2
FBN	2011	284	6	6	0.16	1
FBN	2012	348	6	6	0.16	1
FBN	2013	488	6	5	0.5	3
FBN	2014	571	6	6	0.33	2
FBN	2015	604	6	6	0.33	2
FBN	2016	803	6	6	0.33	2
FBN	2017	856	6	4	0.5	3
FBN	2018	910	6	7	0.33	2
FBN	2019	1,009	6	7	0.33	2
ACCESS	2010	278	6	5	0.5	3
ACCESS	2011	408	6	5	0.5	3
ACCESS	2012	339	6	7	0.5	3
ACCESS	2013	308	6	7	0.5	3
ACCESS	2014	433	6	6	0.5	3
ACCESS	2015	378	6	6	0.5	3
ACCESS	2016	460	6	6	0.33	2
ACCESS	2017	529	6	7	0.5	3
ACCESS	2018	612	6	6	0.5	3
ACCESS	2019	819	6	6	0.67	4
ZENITH	2010	287	6	4	0.33	2
ZENITH	2011	310	6	5	0.5	3
ZENITH	2012	320	6	6	0.5	3
ZENITH	2013	420	7	4	0.57	4
ZENITH	2014	460	7	5	0.43	3
ZENITH	2015	546	7	5	0.43	3
ZENITH	2016	626	7	6	0.57	4
ZENITH	2017	693	7	5	0.57	4
ZENITH	2018	822	7	6	0.57	4
ZENITH	2019	892	7	6	0.57	4
GTB	2010	261	7	5	0.29	2
GTB	2011	285	7	5	0.29	2
GTB	2012	320	7	5	0.43	3
GTB	2013	335	7	5	0.43	3
GTB	2014	399	7	6	0.16	1
GTB	2015	502	7	6	0.16	1
GTB	2016	596	7	4	0.57	4
GTB	2017	712	7	4	0.57	4
GTB	2018	791	7	4	0.57	4
GTB	2019	857	7	4	0.57	4
UBA	2010	222	6	5	0.5	3
UBA	2011	311	6	4	0.5	3
UBA	2012	309	6	4	0.5	3
UBA	2013	296	6	4	0.67	4
UBA	2014	358	6	5	0.5	3
UBA	2015	450	6	5	0.33	2
UBA	2016	490	6	4	0.33	2

UBA	2017	607	6	4	0.33	2
UBA	2018	592	6	4	0.33	2
UBA	2019	608	6	4	0.33	2

Source: Annual Reports and Accounts of Sampled Firms (2010 - 2019)

Panel Data Analyses

Figure 2: Spike Graph of the Focal and Explanatory Variables



Source: Author's Computation Using Eviews 10.0 Software

Figures 2 depicts the pattern of movement of the variables in the individual deposit money banks sampled for the study. Net Asset Per Share has a distinct pattern of movement within the years under review. None of the explanatory variables shared the same pattern of movement as the focal variable (Audit Fees). Also, the explanatory variables do not share the same pattern of movement during the years under study.

Table 2: Panel Data Descriptive Statistic for the Variables under Study

	LOG(AF)	*ACSIZE*	*ACM*	*ACE*
Mean	6.141446	6.340000	5.240000	0.435400
Median	6.131226	6.000000	5.000000	0.500000
Maximum	6.916715	7.000000	7.000000	0.670000
Minimum	5.262690	6.000000	4.000000	0.160000
Std. Dev.	0.419386	0.478518	0.980629	0.136908
Skewness	0.036116	0.675521	0.161389	-0.158949
Kurtosis	1.999916	1.456328	1.947092	2.589284
Jarque-Bera	2.094555	8.767157	2.526671	0.561972
Probability	0.350892	0.112481	0.282710	0.755039
Sum	307.0723	317.0000	262.0000	21.77000
Sum Sq. Dev.	8.618363	11.22000	47.12000	0.918442
Observations	50	50	50	50

Source: Author's Computation from Eviews 10.0 Statistical Software

The normality of the distribution of the data series is shown by the coefficients of Skewness, Kurtosis, and Jarque-Bera Probability. From Table 2, the probability of the Jarque-Bera

Statistics for both the focal and explanatory variables have insignificant p-values (Audit Fees 0.350892, Audit Committee Size 0.112481, Audit Committee Meeting 0.282710, Audit Committee Expertise 0.755039). The insignificant p-values depict that the panel data are normal distribution. This was further confirmed by the skewness coefficients which are not greater than one with the following outcomes Audit Fees (0.036116), Audit Committee Size (0.675521), Audit Committee Meetings (0.161389), and Audit Committee Expertise (0.158949). The kurtosis coefficient also confirmed that all the panel data for all the variables are normally distributed with coefficients that are around three.

Table 3: Pooled Data Covariance Analysis

Covariance Analysis: Spearman rank-order
Date: 07/18/21 Time: 17:09
Sample: 2010 2019
Included observations: 50

Covariance Correlation t-Statistic Probability Observations	LOG(AF)	ACSIZE	ACM	ACE
LOG(AF)	208.2300 1.000000 ----- ----- 50			
ACSIZE	33.75000 0.687493 3.395759 0.0092 50	140.2500 1.000000 ----- ----- 50		
ACM	21.52000	-27.25000	191.1000	

	0.107880	-0.166450	1.000000	
	0.751801	-1.169517	-----	
	0.4558	0.2480	-----	
	50	50	50	
ACE	24.18000	22.25000	-44.70000	179.4000
	0.125105	0.140271	-0.241416	1.000000
	0.873614	0.981529	-1.723559	-----
	0.3867	0.3313	0.0912	-----
	50	50	50	50

Source: Author's Computation from Eviews 10.0 Statistical Software

Table 3 suggests that there is a strong (68.7% approx) and positive relationship between

Audit Committee Size and Audit Fees with t-Statistic: 3.395759 and Probability: 0.0092. Audit Committee Meetings and Audit Fees share a positive and weak relationship (10.7% approx) with t-Statistic: 0.751801 and Probability: 0.4558. Audit Committee Expertise and Audit Fees have a positive and weak relationship at approximately (12.5%) with t-Statistic: 0.873614 and Probability: 0.3867.

Test of Hypotheses

Decision Rule: Reject H_0 if the coefficient of the correlation is less than the A-value calculated (0.50), and accepts the null hypotheses if reverse becomes the case.

Hypothesis One: Audit Committee Size does not have a strong relationship with audit fees of deposit money banks in Nigeria.

Decision: From the panel covariance analysis in Tables 4.2.2, the P-value of 0.0092 is < Avalue of 0.05, the t-statistic of 3.395759 is > 2, and the correlation coefficient of 0.687493 is > 0.50. Therefore, the null hypothesis is rejected and the alternative hypotheses accepted. This implies that Audit Committee Size has a strong relationship with audit fees of deposit money banks in Nigeria.

Hypothesis Two: Audit Committee Meetings do not have a strong relationship with audit fees of deposit money banks in Nigeria.

Decision: From the panel covariance analysis in Tables 4.2.2, the P-value of 0.4558 is > Avalue of 0.05, the t-statistic of 0.751801 is < 2, and the correlation coefficient of 0.107880 is < 0.50. Therefore, the null hypothesis is accepted and the alternate hypotheses rejected. This implies that Audit Committee Meetings does not have a strong relationship with audit fees of deposit money banks in Nigeria.

Hypothesis Three: Audit Committee Expertise does not have a strong association with audit fees of deposit money banks in Nigeria.

Decision: From the panel covariance analysis in Tables 4.2.2, the P-value of 0.3867 is > Avalue of 0.05, the t-statistic of 0.873614 is < 2, and the correlation coefficient of 0.125105 is < 0.50. Therefore, the null hypothesis is accepted and the alternative hypotheses rejected. This implies that Audit Committee Expertise does not have a strong relationship with audit fees of deposit money banks in Nigeria.

Discussion of Findings

Hypothesis One: In the test of hypothesis one, covariance analysis result reveals that audit committee size has a strong and positive relationship with audit fees of deposit money banks in Nigeria. This implies that as the audit committee size of deposit money banks is increasing, their audit quality is also increasing significantly. This supports the "two good heads theory". However, it is worthy to note that the increase is not automatic because of the "too many cooks theory". The continuous increase in audit committee size can reach a saturation point. At that point, the decline in output will set in due to problems with decision making. The finding is in tandem with the finding of

Madawaki and Amran (2013), Wiralestari and Tazil (2015), and Wasonga and Omoro (2017). The researchers found that audit committee size has a positive and significant relationship with audit quality. However, Emeh and Appah (2013) got a contradicting result. The contradictions could be attributed to the disparity in the industry studied. They studied majorly manufacturing companies while this study was centered on deposit money banks.

Hypotheses Two: In the test of hypothesis two, the covariance analysis result reveals that audit committee meetings have a weak and positive relationship with the audit quality of deposit money banks in Nigeria. This implies that as the audit committee meeting is increasing, the audit quality of deposit money banks in Nigeria is also increasing. The finding is in line with the *a priori* expectations of the researcher. The finding is also in tandem with the findings of Raweh, Kamardin and Malik, (2019) and Paradisa and Yustrida (2020) who found either a positive and weak relationship between audit committee meetings and audit quality of deposit money banks in Nigeria.

Hypotheses Three: In the test of hypotheses three, covariance analysis result reveals that audit committee expertise has a weak and positive relationship with audit quality of deposit money banks in Nigeria. This implies that as audit committee expertise of deposit money banks in Nigeria is increasing, the audit quality is also increasing insignificantly. The finding is in line with the *apriori* expectations of the researcher because as more accounting experts join the audit committee, the audit quality of deposit money banks is also increasing. Prior studies by Wasonga and Omoro (2017), and Bouaine and Hrichi (2019), who also found a positive relationship between audit committee expertise and audit quality.

Summary of Findings

The findings are summarized as follows:

i. Audit committee size has a positive and strong (the P-value of 0.0092 is < A-value of 0.05, the t-statistic of 3.395759 is > 2, and the correlation coefficient of 0.687493 is > 0.50) relationship with audit quality of deposit money banks in Nigeria.
ii. Audit committee meetings has a positive and weak (the P-value of 0.4558 is > A-value of 0.05, the t-statistic of 0.751801 is < 2, and the correlation coefficient of 0.107880 is < 0.50) relationship with audit quality of deposit money banks in Nigeria.
iii. Audit committee expertise has a positive and weak (the P-value of 0.3867 is > A-value of 0.05, the t-statistic of 0.873614 is < 2, and the correlation coefficient of 0.125105 is < 0.50) relationship with audit quality of deposit money banks in Nigeria.

5. Conclusion

The study examined the relationship between audit committee characteristics and audit quality of deposit money banks in Nigeria. From the covariance analysis result, it was revealed that audit committee size has a positive and strong relationship with audit quality of deposit money banks in Nigeria. However, audit committee meetings and audit committee expertise have a positive and weak relationship with audit quality of deposit money banks in Nigeria. The study therefore, conclude that among the audit committee characteristics studied, only audit committee size has a strong relationship with audit quality of deposit money banks in Nigeria. Therefore, audit committee size is the only variable among the explanatory variables that can be used to predict audit quality in the industry.

6. Recommendations

The researcher made the following recommendations:

i. Deposit money banks in Nigeria should maintain their audit committee size since it positively affects audit quality of the banks.
ii. They should also increase the number of times they meet during the financial year, and ensure that truancy is eradicated.

iii. Deposit money banks should inaugurate more accounting experts into the audit committee. This will go a long way in increasing the audit quality because of the accounting and audit knowledge of the board members.

Reference

Aldamen, H. Duncan, K. Kelly, S. Mcnamara, R. & Nagel, S. (2012). Audit committee characteristics and firm performance during the global financial crisis. *Accounting and Finance, 52(4),* 971–1000.

Al-Musali, M. A. Qeshta, M. H. Al-Attafi, M. A. & Al-Ebel, A. M. (2019). Ownership Structure and Audit Committee Effectiveness: evidence from top GCC capitalized firms. *International Journal of Islamic and Middle Eastern Finance and Management.*

Ande, J. O. M. (2011). Critical accounting and critical disclosures: The two sides of the going concern. *Paper presented at the African Accounting and Finance Annual Conference, Accra, September*.

Arens, A. A., Elder, R. J. & Mark, B. (2016). Auditing and assurance services: An integrated approach. *(16 ed.): Boston: Prentice Hall*.

Ashari, S. & Krismiaji, K. (2019). Audit Committee Characteristics and Financial Performance: Indonesian Evidence. *Equity, 22(2),* 139-152.

Badolato, P. G., Donelson, D. C. & Ege, M. (2014). Audit committee financial expertise and earnings management: The role of status. *Journal of Accounting and Economics, 58(23),* 208–230.

Bakre, O. M. (2007). The unethical practices of accountants and auditors and the compromising stance of professional bodies in the corporate world. *Accounting Forum, 31(3),* 277– 303.

Bandiyono, A. (2019). The effect of good corporate governance and political connection on value firm. *Journal Akuntansi, 23(3),* 333-348.

Beasley, M. S., Carcello, J. V., Hermanson, D. R. & Lapides, P. D. (2000). Fraudulent financial reporting: Consideration of industry traits and corporate governance mechanisms. *Accounting Horizons, 14(4),* 441–454.

Bédard, J. & Gendron, Y. (2010). Strengthening the financial reporting system: Can audit committees deliver? *International Journal of Auditing, 14(2),* 174–210.

Bouaine, W. & Hrichi, Y. (2019). Impact of audit committee adoption and its characteristics on financial performance: Evidence from 100 French Companies. *Accounting and Finance Research, 8(1),* 92 – 102.

Carcello, J. J. V, Hollingsworth, C. C. W., Klein, A. & Neal, T. L. (2006). Audit committee financial expertise, competing corporate governance mechanisms, and earnings management. *SSRN Electronic Journal,* 1–55.

DeAngelo, L. E. (1981). Auditor Size and Audit Quality. *Journal of accounting and economics, 3(3),* 183-199.

Dechow, P. M., Ge, W. & Schrand, C. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. 50(2010), 344-401.

DeFond, M. & Zhang, J. (2014). A Review of Archival Auditing Research. *Journal of accounting and economics, 58(2-3),* 275-326.

Emeh, Y. & Appah, E. (2013). Audit committee and timeliness of financial reports: evidence from Nigeria. *Journal of Economics and Sustainable Development, 4(20),* 14 – 26.

Enofe, A. Aronmwan, E. & Abadua, H. (2013). Audit committee report in corporate financial statements: Users' perception in Nigeria. *European Journal of Accounting, Auditing and Finance, 1(1),* 16-28.

Handayani, Y. D. & Yustikasain, Y. (2017). Corporate governance and audit report lag at manufacturing companies in the industrial sector of consumption goods. *European Journal of Business and Management, 9(29),* 24 -32.

Hoitash, U. Hoitash, R. & Bedard, J. C. (2009). Corporate governance and internal control over financial reporting: A comparison of regulatory regimes. *Accounting Review, 84,* 839–867.

Jensen, M. C. & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics, 3(4),* 305-360.

Krishnan, G. & Visvanathan, G. (2007). Reporting internal control deficiencies in the postsarbanesoxley era: The role of a post Sarbanes-Oxleyate governance. *International Journal of Auditing, 11(2),* 73-90.

Krismiaji, S. Aryani, Y. A. & Suhardjanto, D. (2016). International financial reporting standards, board governance, and accounting quality. *Asian Review of Accounting, 24(4),* 474–497.

Li, J. Mangena, M. & Pike, R. (2012). The effect of audit committee characteristics on intellectual capital disclosure. *The British Accounting Review, 44(2),* 98-110.

Madawaki, A. & Amran, N.A. (2013). Audit committee: How they affect financial reporting in Nigerian companies. *Journal of Modern Accounting and Auditing, 9(8),* 1070 – 1080.

Menon, K. & Williams, J. D. (1994). The use of audit committees for monitoring. *Journal of Accounting and Public Policy, 13(1),* 121–139.

Muhammad, U. K. Ayoib, C. A. & Noor, A. A. (2016). Audit committee characteristics and financial reporting quality: Nigerian non-financial listed firms. *The European Proceedings of Social & Behavioral Sciences, 2016,* 753-760.

Ohaka, J. & Tom-Abio, I. (2018). Audit committee independence and corporate financial reporting quality in aluminum corrugating companies in Rivers State. *International Journal of Economics and Financial Management, 3(1),* 56 – 65.

Otusanya, J. O. (2010). An investigation of corporate executive fraud by CEOs in the Nigerian banking industry. *Working Paper, University of Lagos, Lagos.*

Putra, I. N. W. A. & Ratnadi, N. M. D. (2018). Institutional ownership, characteristics of the audit committee, and information power earnings. *Journal Akuntansi, 22(3),* 405-419.

Raweh, N.A.M., Kamardin, H. & Malik, M. (2019). Audit committee characteristics and audit report lag: Evidence from Oman. *International Journal of Accounting and Financial Reporting, 9(1),* 152-169.

Scott, W. R. (2015). Financial Accounting Theory Seventh Edition. *United States: Canada Cataloguing.*

Ujah, E. (2006). Again, CBN regulates banks through rotatory auditors. *Retrieved May 7 from http://businessnews.com.*

Wasonga, J. K. & Omoro, N. O. (2017). The effect of audit committee effectiveness and audit evaluation on audit quality: A critical literature review. *African Development Finance Journal, 1(2),* 18 – 31.

Wiralestari, N. & Tazil, D. (2015). The effectiveness of audit committee toward financial reporting quality: non-financial issuers listed on Indonesian Stock Exchange. *Research Journal of Finance and Accounting, 6(10),* 186 – 190.

Wu, J. Habib, A. & Weil, S. (2012). Audit committee effectiveness: A synthesis of the audit committee literature. *Corporate Board: Role, Duties and Composition, 8,* 15–31.

Xie, B. Davidson, W. N. & DaDalt, P. J. (2003). Earnings management and corporate governance: the role of the board and the audit committee. *Journal of Corporate Finance, 9(3),* 295-316.

Yah, L. C. (2006). Economic theory and the East Asian region. *Singapore Economic Review, 50(SPEC. ISS. 1),* 495–512.