

**EFFECTS OF AUDIT COMMITTEE ATTRIBUTES AND AUDIT QUALITY OF
QUOTED OIL MARKETING COMPANIES IN NIGERIA**

BY

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M.Sc. ACCOUNTING AND FINANCE

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DECLARATION

I hereby declare that this dissertation has been written by me and it is a report of my research work. It has not been presented in any previous application for Master degree M.Sc.in Accounting and Finance. All quotations are indicated and sources of information specifically acknowledged by means of references.

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Sign.

Date

CERTIFICATION

The project entitled, “Effect of Audit Committee Attributes on Audit Quality of Quoted OIL MARKETING Companies in Nigeria” meets the regulations governing the award of Master of Science degree in Accounting and Finance, of the school of Postgraduate Studies, Nasarawa State University, Keffi, and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

I dedicate this work to God Almighty, the fountain of knowledge and wisdom

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Finally, but most importantly, to the Almighty Allah, the giver and taker of life, for by strength shall no man prevail.

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ABSTRACT

There are increasing demands for increase in audit quality of quoted firm considering cases of corporate scandals revolving around governance issues. Audit committee is an important governance mechanism that is established to improve reporting quality. This study examines the effects of audit committee attributes and audit quality of quoted OIL MARKETING companies in Nigeria for the period 2011-2015. Ex-post Facto research design was adopted. Audit committee attributes used include audit committee size, independence, gender diversity and audit committee meeting. Data were extracted from the annual reports of the OIL MARKETING companies in Nigeria. Multiple panel regression analysis was used to analyse the data. The result shows that audit committee attributes have significant effect on the audit quality of quoted OIL MARKETING companies in Nigeria. Specifically audit committee independence, audit committee meeting and gender diversity have significant positive effect on audit quality while audit committee size have significant negative effect on audit quality. On the basis of the findings, this study recommends that, audit committee independence and gender diversity OIL MARKETING companies in Nigeria should be sustained and encouraged. This is based on the finding that, these attributes have significant positive effect on audit quality of quoted OIL MARKETING companies in Nigeria.

CHAPTER ONE

INTRODUCTION

1.1 Background to The Study

Some well publicized cases of accounting scandals such as Enron and WorldCom has captured the attention of investors and regulators alike. These highly publicized accounting scandals have greatly shaken the investors' confidence in the integrity of the corporate financial reporting in the United States (U.S). In order to restore the investor confidence, a number of efforts have been taken to reform the corporate governance in the U.S. The congress enacted the Sarbanes-Oxley Act which is known as the Corporate Oversight Bill in July 2002. In line with the congress efforts, the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotations (NASDAQ) adopted new corporate governance rules for exchange listed firms which were approved by the Securities and Exchange Commission (SEC) in November 2003. Both the Sarbanes-Oxley Act and the new corporate governance rules of the NYSE and NASDAQ place much emphasis on greater independence from management and effectiveness of the board of directors and the board of audit committees (Persons, 2005). The cases of accounting scandals on these giants and international companies also indirectly capture the attention of investors and regulators in developing countries.

The search for mechanism to ensure reliable, high quality financial reporting has largely focused on the structure of audit committees, whose function is to oversee the financial

reporting process as well as the audit of financial statements. Quite understandably, expectations will be high on the audit committees to be more active and participative in ensuring audit quality. Audit committees are expected to resolve the agency conflicts and thus enhance the quality of financial reporting. Given the importance of audit committees, listed companies in Nigeria are required to include in their annual reports audit committee report.

Nigeria has also witnessed series of corporate collapses such as Cadbury Nigeria Plc. In 2006; Afribank Nigeria Plc, faced some problem of financial reporting; in 2009, Intercontinental Bank Plc. (2009) and related bank frauds, raised doubts about the credibility of corporate governance in the country. A number of professional and regulatory bodies thus recommended reforms to improve the quality of financial reporting in the management and control of corporations. Nigeria also displayed keen interest in corporate governance in terms of enhancing the quality of financial statements. In doing so, Securities and Exchange Commission, under the provisions of the Companies and Allied Matters Act (CAMA 1990: Section 359, sub-section 3&4), requires all listed companies on the Nigerian Stock Exchange (NSE) to establish audit committees (SEC, 2003). Audit committees are statutorily compulsory component of the management of corporate organizations in Nigeria (CAMA, 1990) and constitute a credible component of corporate governance element. For quite some time now, audit committees have been instituted to add teeth to corporate governance in publicly quoted companies. The wide acceptance of audit committees suggests their importance as part of corporate accountability and transparency, where audit committees are expected to serve

as the watchdog of stakeholder interests (Blue Ribbon Committee, 1999). Many studies have been completed in the areas of audit committee attributes and Audit Quality which are the effective factors to restrain excessive opportunistic behavior in corporate management. The composition of each unit's audit committee is considered one of the factors that support the Audit Quality (Bradbury, 2004; Bryan , 2004; Vafeas, 2005).

On the other hand, audit quality has been described as the joint probability that an existing material error is detected and reported by an auditor (DeAngelo, 1981), as this has a direct impact on the financial reporting, audit quality can further be defined as the ability of an auditor to provide an independent audit free from misstatement, error and fraud. Moreover, Watkins (2004) provides a comprehensive overview of the different ways in which audit quality has been defined in the prior literature. It is viewed as, the accuracy of the information reported on by auditors (Davidson & Neu, 1993); the probability that an auditor will not issue an unqualified report for statements containing material errors (Lee, 1999); and the market assessed probability that the financial statements contain material errors and that the auditor will discover and report them (DeAngelo, 1981).

There are a number of factors which can affect the quality of an audit; these could be (a) the culture within the audit firm, (b) skills and personal qualities of audit partners and staff, (c) the audit process, (d) usefulness of the audit reporting and (e) factors outside the control of the auditors. The Generally Accepted Accounting Principles (GAAP)

outlines important elements such as competence, independence and exercise of due professional care as measures for the quality of the external auditor's performance.

Most countries have formulated governance codes and mandate all companies operating within their boundaries to comply with these codes. These codes differ from one nation to another. In Nigeria, concerns have been expressed about the large scale malpractices and abuse of the system by capital market operators in the past, especially following the recent incidence on the sale of forged shares of publicly quoted companies. Companies have gone into liquidation for reasons bordering on ineffective or non-existing system of CG. Examples are Onwuka Hitech, Abacus Merchant bank and others (Dabor & Tijjani, 2010).

In the Nigerian petroleum industry, the case of Africa Petroleum (now Forte Plc) where 24 billion naira credit facility was not disclosed in the financial statement was unethical. In response to calls for strengthening corporate governance mechanism to enhance the oversight function of the board of directors and to restore public confidence in the integrity of financial reporting, the Security and Exchange Commission promulgated the Nigerian Code of Corporate Governance in 2003 which was later reviewed in 2011 to enhance its effectiveness. This code requires companies listed on the Nigerian Stock Exchange to appoint independent directors and supervisors, including at least one financial expert, and to establish an audit committee. The oil and gas industry is one of the vital industries in the world, largely because of its strategic role in every economy and the world at large. As stated by Faure and Wong (2004) oil is the most transported commodity worldwide, more than any other commodity. Nigeria is blessed with abundant

natural resources of which petroleum products play a major role in the economy. The petroleum sector generates over 90% of the country's foreign exchange earnings, and provides employment in various forms to Nigerians (Central Bank of Nigeria, 2010). In addition, the tremendous growth in oil earnings has influenced Nigeria's international relations. The Nigerian petroleum marketing industry plays a significant role in the economic development of the country because of the indispensability of petroleum products as major inputs in the production process. Despite the importance of petroleum product to the growth and development of the Nigerian economy, research in both Corporate Governance and financial reporting in Nigeria is concentrated on other industries of the Nigerian economy especially banks with little emphasis on oil marketing companies (Tahir, 2008; Dabor & Adeyemi, 2009; Hassan, 2011). Hence, the need to examine the effect of audit committee attributes on audit quality of quoted oil marketing companies in Nigeria.

1.2 Statement of the Problem

In recent times, there has been a spate of audit failures both in Nigeria and globally. Okaro and Okafor (2013) document the classical case of audit failure in Nigeria involving Cadbury (Nig.) Plc and the auditing firm of Akintola Williams Deloitte (AWD). In the same vein, Cunningham and Harris (2006) describe the Enron corporate collapse in US which saw the severe indictment, and eventual demise of the auditing firm of Arthur Anderson, for audit failure. Audit failures result in the waning of investors' confidence in the capital market. This has dire consequences for economic growth and

development of the Nation (Osaze, 2011). The client and the Auditor are also not spared (Aamir, Farooq & Ittonen, 2011). High profile accounting scandals at the turn of the century involving corporate firms such as Xerox, Enron, WorldCom, Aldelphia, Tyco, Parmalat, One-Tel, HIH, and Cadbury have raised serious concerns about corporate governance practices in general and brought into sharp focus on the issues relating to quality of financial reporting and the weak internal control systems in corporate firms (Sukeecheep, Yarram & Al-Farooque, 2013; Ebrahim, 2007).

The collapses of such large corporations in the past have highlighted the intentional misconduct of managers. There is also concern about the weakness of Corporate Governance in the past, as it was not effective enough to protect investors from expropriation. These problems are envisaged to be much more significant in emerging markets where many market imperfections continue to persist. The need for audit committees arose as a result of the desirability of having a body of individuals that are detached from the activities of the company and are as such in a position to work independently of the auditors and act as a liaison between the main board of directors and external auditors on one hand and members of management and the auditors on the other hand (Okoye & Akenbor, 2010).

The spate of audit failures has also turned the search light on this all- important body. The world bank report on observance of corporate governance code in Nigeria state that audit committee of many companies are not effective as many members are not fully equipped for the job (Okere, Mustafa, Linde & Rahman, 2004). The Institute of Chartered Accountants of Nigeria has come out to query the efficacy of this committee,

(Komolafe, 2012). In the same vein, Modum, Ugwoke and Onyeanu (2013) report that over 80% of the audit committees in Nigeria are weakly constituted and lacking in integrity, dedication and a thorough knowledge of their companies. Many other factors have also been canvassed as a necessary desire for effective audit committee work. These include financial; literacy of members (Saidin, 2007), size (Ibadin, 2012), meetings (Lifschutz & Jacobi, 2010), independence (Adeyemi & Okpala, 2011) and financial expertise (Wu, 2012).

A number of studies have been carried out in the areas of audit committee attributes and audit quality, which are the effective factors in restraining excessive opportunistic behaviour in corporate management. Nuraddeen and Hasnah (2015), investigated the effects of corporate governance and financial reporting quality in Nigeria pre – and post – code 2011 (i.e. SEC reform). Their study which focused on 20 listed consumer goods industry found that corporate governance reform encouraged earnings management. Their work did not consider the role of the audit committees on the quality of the financial report. In addition, they only focused on the consumer goods industry. Musa, Oloruntoba and Oba (2004) examined the relationship between audit committee characteristics and financial reporting quality of Nigerian deposit banks. They concluded that audit committee size had an insignificant effect on the quality of financial reporting, however, they found that the expertise of the members of an audit committee and the independence of the committee has a positive significant effect on the quality of financial reporting. Their study also was limited to only the banking industry and confined to seven sample banks.

In view of the fact that audit committee plays an astute role in restraining account information preparers (managers) from maneuvering the accounting figures which will eventually enhance the audit quality. To this end, there have been inconclusive findings (Komolafe, 2012) and divergent views (Modum, Ugwoke & Onyeanu, 2013; Adeyemi & Okpala, 2011) in extant literatures as to whether audit committee attributes have effect on audit quality. To the best my knowledge no research of this nature has been conducted in the Oil marketing sector, therefore the study seeks to investigate the influence of audit committee attributes on audit quality of quoted Oil marketing firms in Nigeria. This study intends to unravel the magnitude of the effect audit committee attributes on audit quality of quoted oil marketing companies in Nigeria.

1.3 Research Questions

This study provides answers to the following research questions:

- i. What is the effect of audit committee size on audit quality of quoted oil marketing companies in Nigeria?
- ii. What is the effect of audit committee number of meetings on audit quality of quoted oil marketing companies in Nigeria?
- iii. What is the effect of audit committee independence on audit quality of quoted oil marketing companies in Nigeria?
- iv. What is the effect of audit committee diversity (measured by the proportion of female in the team) on audit quality?

1.4 Objectives of the Study

The major objective of this study is to examine the effect of audit committee attributes on audit quality of quoted oil marketing companies in Nigeria.

The specific objectives of this study are to:

- i. Assess the effect of audit committee size on audit quality of quoted oil marketing companies in Nigeria.
- ii. Examine the effect of audit committee number of meetings on audit quality of quoted oil marketing companies in Nigeria.
- iii. Determine the effect of audit committee independence on audit quality of quoted oil marketing companies in Nigeria.
- iv. Investigate the effect of audit committee diversity (measured by the proportion of female in the team) on audit quality of quoted oil marketing companies in Nigeria.

1.5 Statement of Hypotheses

The following hypotheses are tested to achieve the research objectives:

- Ho₁: Audit committee size has no significant effect on audit quality of quoted oil companies in Nigeria.
- Ho₂: Audit committee number of meetings has no significant effect on audit quality of quoted oil marketing companies in Nigeria.
- Ho₃: Audit committee independence has no significant effect on audit quality of quoted oil marketing companies in Nigeria.

H₀₄: The diversity of the audit committee has no significant effect on audit quality of quoted oil marketing companies in Nigeria.

1.6 Significance of the Study

This study will add to and extend the existing body of knowledge on audit committee attributes and audit quality literatures; it will furnish further insights into prevailing factors that affect audit practices and concept of audit quality. The importance of auditing can be illustrated under the principal-agent relationship. The demand for external audits is directly related to the fact that it is the directors (the agents) who prepare the financial statements, which is primarily based on cost reasons. Therefore, this study is expected to provide useful insight into improving audit quality. This study contributes to the audit literature as it provides additional empirical evidence on the impact of the size of audit firm (big and non-big) on the level of audit quality. The study also reflects the quality of audit services between “big and non-big” audit firms in Nigeria. This study will be useful to stakeholders in the Nigerian Stock Exchange (NSE) as it provides evidence on the relationship between audit quality and the reform instituted by them in formulating the Code of Corporate Governance for listed companies in Nigeria.

It will help regulators, corporate managers, society, practitioners, and academicians to gain a better understanding of the nature and factors that might affect audit quality. It will empirically inform the debate surrounding the potential benefits of direct regulation

of audit practices to promote a high quality of audit. It will also assist in comprehending the role of the audit committee members in promoting high quality auditing

This study will also make a major contribution to the understanding of the association between the various audit committee characteristics and audit quality in the wake of recently introduced regulatory recommendations. This study finding will also have policy implications as regulators around the world continue to define and refine the desired characteristics and behaviour of audit committees. Therefore, the findings of this study will ensure future policy changes regarding audit committees are adequately informed.

1.7 Scope of the Study

This research covers only major marketers in the Nigerian oil marketing industry which are quoted on the first-tier market of the Nigerian Stock Exchange. These are Afro oil, Beco, Conoil, Eterna, Forte, Mobil, MRS, Total and Oando. The study did not include independent marketers and surface tank operators which are also players in the industry.

Independent marketers and surface tank operators are privately owned, small (in term of marketing outlet), most of them may not have established accounting records or financial reports to show their performance over a period, and as such, they are excluded. This study covers a period of five years (2011 to 2015). The period is adequate to determine the effect of audit committee attributes on audit quality of quoted oil marketing companies in Nigeria.

CHAPTER TWO

LITERATURE REVIEW

2.1 Concept of Audit Committee Attributes

Researchers have defined audit committees in a variety of ways. According to Cadbury (1992), audit committee is a formal institution used by corporate owners to discipline organisations. Morrin and Jarrell (2001) argued that an audit committee is a special group of experts, which controls and safeguards the interests of the capital market investors, corporate owners, managers, employees, suppliers, and creditors.

An audit committee is not only a group of persons, but also a set of processes, policies, laws and institutions affecting the way a corporation is directed, administrated or controlled. A perfect audit committee can strengthen intra-company control and can reduce opportunistic behaviours and lower the asymmetry of information, so it has a positive impact on the high quality of disclosed information (Li & Qi, 2008).

The main function of an audit committee is monitoring the firm's financial performance and financial reporting. In this sense, it is expected that audit committees should strongly affect the selection, removal and remuneration of auditors, the content and extent of audit work, auditor independence, and the resolution of disputes between auditors and executive management. Also audit committees should review and agree upon chosen accounting policies. As well as they tend to persuade a company's approach to financial reporting, levels of disclosure, and adherence to standard practice. Also, besides monitoring the reliability of the company's accounting processes, audit committees

should ensure the compliance with corporate legal and ethical standards, including the maintenance of preventive fraud controls (Turley & Zaman, 2004).

Many major studies have discussed the importance of audit committees, For instance; Wild (1996), stated that forming an audit committee enhances investors' expectancy of receiving improved financial reports. As a result, the firm will likely experience an increase in its earnings response coefficients. Similarly, McMullen (1996) found that companies with an audit committee are less likely to experience errors, irregularities and other indicators of unreliable financial reporting. The Audit committee thus, is considered to be an additional internal governance mechanism whose impact is to improve the quality of financial management of a company and hence its performance. In this respect, an audit committee has four main characteristics that should be considered, these are; audit committee independence, audit committee size, audit committee diversity and audit committee meetings. The Hempel Committee Report emphasized the importance of committees and independent directors, and suggested that a company's nominating, compensation and audit committees should be composed largely of independent directors (Pass, 2004). Knowing the importance of committees and their contribution to organizations. The Nortel failure illustrates the consequences of ineffective audit committees, where independent directors lacked understanding of due diligence, and yet the audit committee failed in its duties to oversee the internal and external audit processes (Thain, 2004). Based on the literature, it would seem that the audit committee serves primarily to reduce agency cost, and thereby improving the net performance of the firm.

This study considers the size of the audit committee, audit committee independence, audit committee diversity and audit committee number of meetings.

Audit Committee Size: The Blue Ribbon Committee (BRC) report of 1999 released the usefulness of having an audit committee and recommended that an effective audit committee of listed companies should comprise at least three directors. These recommendations reflect the assumption that size is a very important attribute of the effective audit committees and can have a significant effect on the monitoring of earnings management (Pincus, Rusbarsky & Wong, 1989). Although the size of audit committee is affected mainly by the size of the company and its board of directors, if the audit committee size is too small then an insufficient number of directors to serve the committee in occurring and thus decrease its monitoring effectiveness (Vafeas, 2005).

This is so perhaps because small committee is not capable of fulfilling its duties efficiently as the given assignments is always increasing. Also, when a committee size is too large, the directors' performance may decline because of the coordination and process problems and hence highlight another reason for weak monitoring (Jensen, 1993; Vafeas, 2005). The perfect average of the audit committee size is between 3 and 4 members (Abbott, Parker, & Peters, 2004; Xie, Davidson & DaDalt, 2003). Evidence from the previous studies suggested that the firms with large audit committee are more effective in monitoring the management. Baxter and Cotter (2009) found that quarterly earnings management is lower for the firms that have large size of audit committee. This may suggest that having a sufficient number of audit committee members (3 or 4) as required

by law increases the efficiency of its monitoring function in terms [of financial reporting integrity].

Previous researches have investigated the role of the size of audit committees as an effective mechanism for monitoring and controlling financial reporting. Yermack (1996) found that a small board size enhances audit quality. Jensen (1993) asserted that having a small number of board members improves the efficiency of audit committee monitoring and control. Goodstein, Gautam, and Boeker (1994) posited that large board size is associated with delays and administrative bottlenecks. However, other studies suggested that smaller boards may be less encumbered with bureaucratic problems.

Anderson, Mansi, and Reeb (2004) stated that large boards can devote more time and resources to monitor the financial reporting process and the internal control systems. This implies that an increase in audit committee size enables members to distribute the workload and commit more time and resources to monitor management and detect fraudulent behaviour.

Audit Committee Number of Meetings: The effectiveness of audit committee depends on the extent the Committee is able to resolve issues and problems faced by the company and to improve their monitoring function of company activities (Abbott, Park & Parker, 2000). A more active audit committee is expected to provide an effective monitoring mechanism. The more frequent the audit committee meets, the more opportunity it has to discuss current issues faced by the company. A more active audit committee is expected to provide an effective monitoring mechanism. Adeyemi, Okpala and Dabor (2012) observed that the more frequent the audit committee meets, the more opportunity

it has to discuss current issues faced by the company. A more active audit committee is expected to provide an effective monitoring mechanism. Beasley, Carcello, Hermanson, and Neal (2009) suggest that audit committee meetings are not mere rituals devoid of interest to managers and auditors instead meaningful and substantive meetings are consistent with an agency perspective. Chen and Zhou (2008) noted a number of audit committee meeting as an important mechanism of corporate governance. Since the level of audit committee activity reflects good governance, it should enhance the exercise of oversight function and hence, audit quality. The Code of Corporate Governance states that the provision of an institutionalised forum encourages the external auditor to raise potentially troublesome issues at a relatively early stage. As a best practice, audit committee meeting should be conducted at least once a year without the presence of executive board members. However, the total number of meetings depends on the company's terms of reference and the complexity of the company's operation's operations. At least three or four meetings should be held in addition to other meetings held in response to circumstances that arise during the financial year (Finance Committee on Corporate Governance, 2001). Although the number of meetings may not provide an effective monitoring mechanism, it is noted that an audit committee without any meeting or with small number of meetings is less likely to be a good monitor (Menon & Williams, 1994).

2.1.4 Audit Committee Diversity:

By decomposing the criterion of decision-making accuracy, Lepine et al. (2002) illustrate how male-dominated teams may in some contexts, constitute the worst gender composition specifically, as the percentage of males on a team increased, there was an exponential increase in the tendency for making decisions that were overaggressive. Based on a real-effort experiment, Ivanova-Stenzel & Kubler (2005) find that female and male performance differ most in mixed teams with revenue sharing between the team members, as men put in significantly more effort than women. Their data also indicate that women perform best when competing in pure female teams against male teams whereas men perform best when women are present or in a competitive environment. Mannix & Neale (2005) find that gender composition has no relation with performance outcomes of the group. By examining the performances of mixed and same-sex dyads on a group assignment for a course 'Financial Statement Analysis and Auditing', Kris, Diane & Joel (2009) confirm the effectiveness of groups: Students performed both better than the mean of their members and then their best member. Comparing dyads' performances (in relationship to their cognitive abilities) they found all-female dyads underperforming vis-à-vis all-male and mixed dyads. It is suggested that the smaller gains for individuals working in all-female dyads resulted as a consequence of the prescriptive nature of gender stereotypes activated in all-female groups working in a traditionally male domain. The presence of female directors setting on the audit committee board has higher expectation regarding their responsibility and role on the board which brings about better monitoring of the board. Abbott, Parker and Presley

(2012) argue that the presence of female directors in audit committee enhances the board's ability to maintain an attitude of mental independence in displaying their oversight functions. In other words, Pathan and Faff (2013) suggest that excessive proportion of female setting on the board may adversely affect the possibility of catching up with more capable male in the board. This influence is stronger within firms with low market power and smaller in size. More so, gender diversity signifies the presence of women setting in the board and it leads to greater board diversity. Carter, Simkins and Simpson (2003) state that the presence of audit committee gender is considered as an improvement to the organizational value and performance as it provides new insights and perspectives.

Audit Committee Independence: Independence of audit committees help to ensure that management is transparent and will be held accountable to stakeholders (Treadway Commission, 1987; Cadbury Committee, 1992; Blue Ribbon Committee, 1999). It is expected that independent audit committee members will be more objective and less likely to overlook possible deficiencies in the misappropriation and manipulation of financial reporting. Abbott et al. (2004) found evidence to support this interpretation within the context of financial reporting misstatements. After the passage of SOX in 2002, audit committees in the US must consist entirely of independent members to pre-approve audit and non-audit services and to set procedures for handling complaints related to accounting and auditing issues.

Deli and Gillan (2000) claimed that an audit committee serves as a reinforcing agent to the independence of internal as well as external auditor, audit committees are expected to

be more effective in the oversight of financial reporting when they are independent. Xie, Davidson, and DaDalt (2003) argued that the more independent an audit committee is, the more likely it is to provide better governance compared to a less independent audit committee. In literature, less financial misstatements are associated with more independent audit committees (Beasley, 1996; Abbott, Parker, & Peters 2000; Garcia-Meca & Sanchez-Ballesta 2009).

Klein (2002) posited, Independence of audit committees increases with board size and board independence. Beasley, Carcello, Hermanson, and Neal (2000) found that audit committee independence is significantly related to financial reporting quality, since financial statement fraud is more likely to happen in firms with less audit committee independence. However, other studies found different results. Lin, Li, and Yang (2006) reported no evidence of a relationship between audit committees having independent members and earnings restatements. Xie, Davidson, and DaDalt (2003) also found no evidence of a significant relationship between the level of discretionary accruals and an independent audit committee. It is an essential factor for an audit committee to ensure that management is held accountable to shareholders (Blue Committee 1999, Cadbury Committee 1992 and Treadway Commission 1987). The Code of Corporate Governance states that the majority of audit committee members must be independent and the chairman should be an independent non-executive director. It enhances the effectiveness of monitoring functions. It serves as a reinforcing agent to the independence of internal and external auditors. It is posited that the more independent the audit committee, the higher the degree of oversight and the more likely that members act

objectively in evaluating the propensity of the company accounting, internal control and reporting practices. This indicates that an independent audit committee is able to help companies sustain the continuity of business although when they are faced with financial difficulties, they are expected to propose certain action plans to mitigate the problem.

Given the audit committee attributes discussed above, it is the opinion of this study that the size of the audit firm/committee plays the most significant role in determining the quality of any financial audit carried out. The significance of an audit firm size on the quality of an audit will be further discussed in the succeeding section.

2.1.1 Concept of Audit Quality

The concept of audit quality has proved difficult to define with certainty. It is not immediately or directly observable and is difficult to measure (Power, 1997). Moreover, audit market participants have conflicting roles and different expectations that lead to different interpretations of audit quality (Sutton, 1993). As a result, different people tend to have different definitions and ways of measuring it (Rasmussen & Jensen, 1998; Watkins, Hillison & Morecroft, 2004) which suggests ambiguity and subjectivity in the term audit quality. The professional literature is inclined to define audit quality in relation to meeting the requirements of the auditing standards during the course of the audit (Krishnan & Schauer, 2001; McConnell & Banks, 1998). In comparison, various academic research approaches that are relevant to audit quality have defined and measured audit quality in a number of ways, involving a combination of measures linked to audit outcomes, such as audit failures (Feroz, Park, & Pastena, 1991) and the quality of

financial reporting (Becker, Defond, Jiambalvo, & Subramanyam, 1998; Gul, Lynn, & Tsui, 2003), process measures that are related to auditor performance (Sutton, 1993; Malone & Roberts, 1996), and to capture quality attributes of relevance to users and preparers of financial statements (Schroeder, 1986; Carcello, Hermanson, & Neal 1992; Duff, 2009).

Davidon and Neo (1993) in a more comprehensive definition, defined audit quality as the auditor competency in the discovery and resolution of the important distortions and manipulations performed on the reported profit. Therefore, the auditor's capability is a crucial subject in the auditing quality which has been interpreted from various aspects and it has an extensive relationship with the internal and external factors, auditors' characteristics (such as experience, competency, ethics etc.), auditors' independency (independency from employer, market competition etc.) and legislative environment (obligatory substitution, auditing and non-auditing services etc.). According to the fact that the auditing quality is multifaceted, it is not evident that which of the aforementioned factors is influential in determining the auditors' qualities and therefore the auditing quality cannot be directly observed and measured.

DeAngelo (1981) defined audit quality as the market-assessed joint probability that the auditor discovers an anomaly in the financial statements, and reveals it. Conceptually, the auditing quality can be measured through the three basic aspects of inputs, outputs and environmental factors. Except auditing standards, there are other inputs for the auditing quality. One of such an input is the unique and prominent features of the auditor such as his or her experience, moral values and his propensities. One of the other important

factors is the auditing process. This process includes auditing methodology, the amount of the effects of the applied auditing methods and the amount of access to the required auditing documents and evidences.

Auditing outputs also bring about important outcomes for the auditing quality, since the outputs are taken to consideration by the users for the auditing quality evaluation. For instance, when the auditor's report clearly expresses the result subsequent to the auditing act can exert a positive impact on the auditing quality. Also, the relationship between the auditors and the leadership foundations in such subjects as financial reports quality aspects and the internal control weaknesses can have a positive effect on the auditing quality.

A significant body of literature dealing specifically with audit quality has developed from DeAngelo's (1981) studies of independence and the competence of auditors of large audit firms. Much of the research literature investigating audit quality relies on the economic view represented in the definition proposed by DeAngelo (1981), that audit quality is the market-assessed joint probability that a given auditor will both (i) 'identify a breach in the client company's accounting system' and (ii) report that breach' – that is, the auditor has both the technical competence to detect any material errors during the audit process, and the independence to ensure material errors and omissions are corrected or disclosed in the auditor's report.

Thus, audit quality is connected to both the actuality and the perceptions of two important determinants of audit quality: competence and independence. Following DeAngelo (1981) who argued that assessing audit quality is costly because of the limited ability of

the consumers to observe audit procedures used in an audit engagement and the limited information about incentives within the auditor-client contract, she proposed the use of auditor size as a surrogate for auditor quality. She also argued that the larger audit firms are of better quality compared to other auditors because they have less economic reliance on any single client. Moreover, incentives for larger audit firms to reduce audit quality will be lower because of the economic importance of maintaining reputation (larger audit firms with greater numbers of audit clients may have more to lose if they fail to detect and report material errors and omissions). Failure to deliver adequate output quality has been inferred from sources such as auditor litigation (Palmrose, 1988) and the imposition of regulatory sanctions (Feroz, Park & Pastena, 1991). Financial reporting quality has been linked to the auditor's ability to improve the credibility of earnings (Becker, Defond, Jiambalvo, & Subramanyam, 1998; Gul, Lynn, & Tsui, 2003), the accuracy of the audit opinion (Ruiz-Barbadillo, Gomez-Aguilar, Fuentes-Barbera, & Garcia-Beneu, 2004), the probability that the auditor will not issue an unqualified opinion for financial statements containing material misstatements (Lee & Stone, 1999) and the accuracy of the information reported by the auditor (Davidson & Neu, 1993). Input factors that have commonly been tested for evidence of an association with variation in these outcomes include the size of the audit firm, audit fees (as an indicator of audit effort), whether the firm is a specialist in the industry and whether the degree of auditor independence is threatened by the presence of fees from non-audit services and long audit tenure.

Although mixed results have been reported, prior research has recognized audit fees, the amount of non-audit services and audit tenure as input factors that may be associated with variations in audit quality. Audit firm size has been the most commonly studied surrogate for audit quality. It is argued that the larger audit firms are higher quality than the smaller firms for various reasons. First, larger firms are able to hire highly skilled employees because of their reputation. In addition, the larger firms are also able to provide rigorous training for their staff, which contributes to the development of the skills and knowledge of the auditors. Furthermore, it is also argued that more developed and structured audit approach or methodology applied by the larger firms increases their ability to issue accurate audit opinions through greater detection of errors and omissions (Carcello, Hollingsworth, Klein, & Neal, 2006). However, other studies provide limited evidence on the association between the structured audit approaches and the type of opinions rendered (Mutchler & William, 1990). One of the most common approaches that have been widely investigated in this area is the association between audit firm size and various attributes associated with the quality of financial reporting. Researchers hypothesize that the clients of big size audit firms report more accurate financial information and less earnings management. Large audit firms, such as the Big Four (PwC, Deloitte, Ernst & Young and KPMG), are argued to be more likely to issue a more accurate opinion and their audit clients to experience fewer restatements of financial statements and be subject to fewer regulatory sanctions (Feroz, 1991).

Big size firms are said to be more conservative in reporting because they have more incentives to reduce litigation loss in order to maintain their professional reputation and

independence (DeAngelo, 1981; DeFond, Mark & James, 2002) and are less likely to be economically dependent on a single client (Pearson, 1980).

In this study, any financial statement audited by the big four audit firms in Nigeria is termed quality audit.

2.2 Empirical Review

2.2.1 Audit committee size on audit quality

Al-Rassas and Kamardin (2015) examined how audit committee affect audit quality. The samples Audit Committee Characteristics and Firm Performance of Public Listed Companies in Malaysia. Companies used in the research were 508 firms which listed under Bursa Malaysia. They stated that company may have process losses due to diffusion accountability if audit committee size is over large.

Laith (2015) examined the relationship between audit committee characteristics, audit firm quality and companies' profitability. The study aimed to highlight the role of audit committee and external audit in enhancing companies' profitability. Since there were contradictions in previous studies results, there was a need to test these relationships in Jordanian context to provide empirical evidence on this issue, especially after the corporate governance application became mandatory since 2009. The study used industrial sector, which from a sample of 91 companies, 69 companies were included in the study, and the other 22 companies were excluded due to being newly listed or delisted during the study period (2009-2014). Multiple regression were used to analyse the data,

the result showed positive relationships between audit committee size and companies profitability,. Such results would be beneficial to companies' corporate governance committees to play their supervisory role.”

Thirunavukarasu, Nadarajah, Rajalingam and Muthulingam (2014) analyze whether, size have significant impact on audit quality of manufacturing companies listed on Colombo Stock Exchange, Sri Lanka during 2011 to 2013. Research Design: The study takes 32 manufacturing companies listed in Sri Lanka out of 36 as sample and employs binary logistic regression method for modeling the association between a binary dependent variable such as audit quality and independent variables. Findings: The study finds the logistic regression model for overall evaluation, statistical tests of individual predictors and goodness-of-fit. Size and audit quality result shown insignificant association.

Abbott et al. (2004) and Vafeas, (2005) opined that the perfect average of the audit committee size is between 3 and 4 members. Evidence from the previous studies suggested that the firms with large audit committee are more effective in monitoring the management. In view of this, Yang and Krishnan (2005) reviews that quarterly earnings management is lower for the firms that have large size of audit committee. This implies that having a sufficient number of audit committee members increases the efficiency of its monitoring function in terms of financial reporting integrity. As such, most of the literature on audit committee size and performance believe that larger audit committee size is associated with higher financial reporting monitoring and control. For instance,

Bedardet al. (2004) argue that it is important to increase the number of members of the audit committee to ensure more effective control of accounting and financial processes. Similarly, Anderson et al. (2004) reviews that large size audit committees can protect and control the process of accounting and finance with respect to small committees by introducing greater transparency with respect to the shareholders and creditors which has a positive impact on the financial performance of the company.

Bouaziz (2012) study the impact of the characteristics of the audit committee on the financial performance (TOBIN'S Q and ROE) of Tunisian companies using a sample of 26 Tunisian companies listed on the Tunis Stock Exchange. The results show that the audit committee size has a significant positive impact on financial performance measured by TOBIN'S Q and ROE. The study concludes that the audit committee is significant in improving the financial performance. Fulop (2013) "analysed the correlations between the audit committee and profitability. The study used 25 companies listed on Berlin Stock Exchange to test these relationships he found that the role of the audit committee is crucial." Similarly Zare (2013) "examined the relationship between audit firm size and profitability. The study used 97 companies' annual reports to test the study hypotheses; the study found a negative and significant relation between audit firm size institution and companies' profitability. Moreover, Arshad (2011) found there was a positive effect of an audit committee on firm's profitability ratio and on firm's performance."

Ebrahim, Faudziah and Abdullah (2014) "examined the relationship between audit committee characteristics and firm performance in Oman. Thier study revealed a positive association between audit committee size to firm performance but not significant. On the

other hand, a negative but insignificant relationship was found between audit committee independence and firm performance. Moreover, the study revealed that the foreign members of the board have a significant moderating effect on the relationship between audit committee independence and firm performance.”

Ali, Kaid and Hanim (2012) examined the relationship between the internal corporate governance mechanism related to the board of directors, the audit committee characteristics and the performance of the Saudi companies listed in the Saudi Stock Exchange (TADAWL) in 2010, excluding financial companies. The study used Tobin’s Q ratio to measure performance; the statistical results of the study are contrary to agency theory that board of directors and audit committee might mitigate agency problems leading to reduced agency cost by aligning the interests of controlling owners with those of the company while Audit Committee size is reviews to have a significant relationship with firm performance, (but in the opposite direction to expectation). Other hypothesized variables, such as audit committee independence, audit committee meeting were reviews to be as expected directions but insignificantly related to firm performance measure except the direction of the proportion of non-executive directors was opposite to the expectations.

Ojulari (2012) examines the relationship that exists between audit committee characteristics in Nigeria and firms value using five audit committee characteristics variable and five firms value variables. The five audit committee characteristics adopted for the study are size of audit committee, directors’ independence, financial literacy of

directors, number of meetings held by the committee and multiple directorships. The five variables used for firm's value are Return on Equity, Net Profit margin, Sales/Turnover Growth, Tobin's Q and Dividend yield. The first three financial variables are termed profitability variables while the last two variables are termed investors variables. Twenty-five FTSE100 firms were selected for the study and two years' data were collected on these firms to give a 50-year data set. The result of the tests shows that the two variables (i.e. Audit committee and financial performance) are more positively related on an overall efficiency basis than on an individual basis when looked at from the profitability angle while they are more related on an individual basis than collectively when looked at from investors' angle. The study concludes that all the variables of audit committee effectiveness work together to improve firms' profitability but investors pay more premiums on some of the audit committees' characteristics than others, and, all the characteristics put together. Moreover, the study infers that audit committee effectiveness do have an impact on a firm's value but the degree of the impact differs from profitability to investors' confidence and also whether on individual or collective basis.

Hamdan et al. (2013) examined audit committee characteristics on firm's performance in the research on consequences of audit committee characteristics on firm's performance has concluded that financial expertise of audit committee had remarkable relationship with firm's performance. They collected total of 212 companies as their samples in year 2008 and 2009. Tests such as normal distribution, Multicollinearity, Autocorrelation test, and the Ordinary Least Squares tests have been adopted in this study.

Inaam, khmoussi, and Fatma (2012) empirically examined the effect of audit committee

Characteristics on real earnings management in Tunisian, context using 319 firm-year observations during the period 2000-2010. They review that the size of the audit committee is positively associated with the level of real earnings management. Their findings are however inconsistent with their expectations and the findings of most scholars that reviews that audit committee size has a negative impact on earnings management. The studies by Ali et al., (2012), Ojulari (2012), Bouaziz (2012), Aldamenet al., (2011) have well examined audit committee size and performances, they are also limited by the use of quantitative methodology and most of them are not conducted in Nigeria. This requires a logical study like the present one to examine the impact of audit committee size on performance using both the primary and secondary data. On the other hand, Zhou and Chen

(2004), Cornett et al., (2010), Abbott et al. (2000), Sharma et al., (2009), Inaamet al. (2012) focused on audit committee size and financial reporting quality, while this is an important aspect of audit function, examining the impact of audit committee size and performance could have made more difference and provide managers with the empirical evidence of their opportunistic behavior on performance and financial reporting quality by extension.

Mrwan, Aiman, and Shehata (2014) examined the effect of Audit Committee Characteristics and Firm Performance: Evidence from Egyptian Listed Companies, the study found out that Firm size is positively and significantly correlated and return on equity. Firm leverage is also positively and significantly correlated with return on equity

The Blue Ribbon Committee (BRC) report of 1999 released the usefulness of having an audit committee and recommended that an effective audit committee of listed companies should comprise at least three directors. These recommendations reflect the assumption that size is a very important attribute of the effective audit committees and can have a significant effect on the monitoring of earnings management (e.g. Pincus, Rusbarsky, & Wong, 1989). Although the size of audit committee is affected mainly by the size of the company and its board of directors, if the audit committee size is too small then an insufficient number of directors to serve the committee in occurring and thus decrease its monitoring effectiveness (Vafeas, 2005). This is so perhaps because small committee is not capable of fulfilling its duties efficiently as the given assignments is always increasing. Also, when a committee size is too large, the directors' performance may decline because of the coordination and process problems and hence highlight another reason for weak monitoring (Jensen, 1993; Vafeas, 2005). The perfect average of the audit committee size is between 3 and 4 members (Abbott, Parker, & Peters, 2004; Xie, Davidson, & DaDalt, 2003). Evidence from the previous suggested that the firms with large audit committee are more effective in monitoring the management. Baxter and Cotter (2009) found that quarterly earnings management is lower for the firms that have large size of audit committee. This may suggest that having a sufficient number of audit committee members increases the efficiency of its monitoring function in terms of financial reporting integrity.

Fulop (2013) analyzed the correlations between the audit committee and profitability. The study used 25 companies listed on Berlin Stock Exchange to test these relationships he found that the role of the audit committee is crucial. Similarly, Zare (2013) examined the relationship between audit firm size and profitability. The study used 97 companies' annual reports to test the study hypotheses; the study found a negative and significant relation between audit firm size institution and companies' profitability. Moreover, Arshad (2011) found there was a positive effect of an audit committee on firm's profitability ratio and on firm's performance

Previous researches have investigated the role of the size of audit committees as an effective mechanism for monitoring and controlling financial reporting. Yermack (1996) found that a small board size enhances audit quality. Jensen (1993) asserted that having a small number of board members improves the efficiency of audit committee monitoring and control. Goodstein, Gautam, and Boeker (1994) posited that large board size is associated with delays and administrative bottlenecks. However, other studies suggested that smaller boards may be less encumbered with bureaucratic problems.

Anderson, Mansi, and Reeb (2004) studied the relationship between Audit Committee Characteristics and audit quality and found that large boards can devote more time and resources to monitor the financial reporting process and the internal control systems. This implies that an increase in audit committee size enables members to distribute the workload and commit more time and resources to monitor management and detect fraudulent behavior. Audit committee Characteristics and audit quality have been discussed by previous researchers in numerous directions and with a different conclusion.

Ojulari (2012) investigate the association between audit committees and Firms value through analyzing characteristics of Audit Committee among 25 firms to determine whether these firms follow the Agency theory. Data obtained from FTSE 50-year data were analyzed and summarized by means of descriptive statistic, association test were conducted among the two variables. It was discovered that both variables i.e. audit committee and audit quality are absolutely and clearly connected based on complete effectiveness than on a singular center when you view it from the viability aspect during the period under study 2008 to 2009. Based on the above study, the period under study which is two years (2) are relatively too small to make a long time policy, also, descriptive statistic were adopted instead of causal research design, in order to generate more reliable financial data from secondary source, because, the findings of the study which showed that effectiveness of an audit committee that had an effect on firm s value should not be concluded.

Bouaziz (2012) examined the effect of audit committee characteristics effect on Tunisian company's audit quality. Looking at effect of presence of AC on Audit quality of Tunisian company, both audit quality and return on equity were used as the key performance indicator. The study was conducted and sampled among twenty six Firms Listed and quoted on stock exchange of Tunisian during a certain period of four (4) years between 2007 towards 2010. Validity of the hypothesis was tested using two Model of linear regression. The study above found out that audit committee effectiveness is actually determined on their Characteristics which has to do with membership

independency, size of the committee, membership frequency meeting and expert committee members and experience. The significance of effect of audit committee Characteristics on Tunisian company Audit quality was also found out. The study was conducted among 26 listed firms on Tunisia stock exchange were sampled for four years period, which is not a long period, the findings from the study in Tunisia might not be applicable in Nigeria due to differences in codes of corporate governance.

Allam, Adel and Sameh (2013) found that relationship between Characteristics of Audit Committee that is: audit committee size, audit committee independence and financial experience on Performance, which comprises of operation, Stock and Audit quality. 106 corporations from listed financial sector of Amman stock exchange were sampled, making complete 212 financial sectors, observed for period between sample years of 2008 to 2009. It was indicated that there are effects of audit committee on stock and also audit quality of the business. Though, limited research had testified the effect and influence of audit Committees on Audit quality. The period of the study is for two (2) year, it is too small to have a valid result, it has no effect on business Operating performance, the findings is applicable to Jordan only.

Ojeka, Iyoha and Francis (2014) examine the influence of audit committee effectiveness on Firm's Performance, Four characteristics looked into are: AC independence, AC financial expertise, AC size, and AC frequency meetings. Indicator performance used for measurement were return on capital employed i.e. ROCE, then return on equity i.e. ROE lastly, audit quality i.e. TOBIN'S Q Data were collected from Twenty- Five Manufacturing Firm that were carefully chosen, during the period between 2004 to

2011. Aggregate sum of Manufacturing Firms selected were one hundred and ten. Sampling technique was employed for the study using Judgmental Non-Probability. Regression and Correlation were carried out for a sample size of twenty five Empirical Analysis. Outcome of that investigation revealed there is a strongly Positive substantial correlation amongst Financial Expertise of AC and Audit Committee independence. So the recommendation reported from the study states that the Audit Committee must remain further effective by making sure Audit memberships remain independent non-executive directors also certify most membership of Audit Committee should comprise of financial experts, most especially members with accounting experts and knowledge, finally to ensure audit committee meetings are designed to tackle relevant matters relating to the roles of the committee and also for the purpose of improving Firm's Audit quality. Sampled firm was manufacturing firms. Collection of data of this study were through primary source, whereas the collection of data should be secondary source to safeguard the dependability of the monetary data, regression, also, correlation were used to analyze data, preferably panel should be better off, the result disclosed AC size and AC meetings has no significant Relationship with all Performance Variables, which should not be generally accepted.

Amer (2016) investigate the influence of board of directors and audit committee characteristics on firm's audit quality. From the study it revealed that nine features can hinder the progress and efficiencies of a business's audit quality. Under Corporate business, those qualities were classified into board of director's Characteristics, board independence, size, chief executive officer duality, director ownership, and board

frequent meetings. The audit committee Characteristics are size, audit committee Independence, frequency of meeting and financial expertise. The researcher sampled 56 firms listed on Egyptian stock exchange, two models are constructed and tested. Study period covers nine- good year from 2004 to 2012. From the two models constructed, nine postulates are derived from both models. To test these assumptions, GLS i.e. random effects regression was used. From the study it was revealed that Audit Committee characteristics and board of directors influenced firm's audit quality. It also showed that size of board, frequency of board meeting and chief executive officer dualism are absolutely and importantly related with firm performance. Likewise, independence of AC, meetings frequency of AC and AC financial expertise are significantly and positively related with firm performance, while audit committee size has a considerably negative association with Firm Performance. This study is applicable in Egypt, to test these hypotheses, random effects regression was used. Whereas panel would have been preferred. The result found that state committee size has a negative association with firm performance is not totally agreed with in taking decision.

Ravivathani and Danoshana (2013) consider effect of corporate governance on performance of listed financial institutions located in sri lanka. Key performance variable used by the researcher in explaining the performances of the Firm was return on equity and audit qualitys. Board Size, Board Frequency of Meeting and audit committee of the company were the independent Variables in measuring corporate governance. 33 listed financial institutions ar the Population sampled, the study was carried out between the periods of 2008 towards 2012. Sampled data were generated from Secondary Sources.

Based on that findings, Corporate Governance variables positively and significantly have effect on company's performance. Board size and audit committee size are positively have effect on firm's performance. On the other hand, Regular meeting has negative effect on Firm's Performance. Appropriate corporate governance Practices to improve Performances of Listed Financial Institutions was recommended by the researcher. This study was carried out in Sri Lanka, so, the findings might not be applied by other country s policy maker, financial institution were selected as the population sampled, the findings might not be applicable in another sector, the study period is five years (5). Means of data collection through secondary source was not mentioned. The final finding on audit committee frequency meeting shows that ACFM has negative effect on audit quality, which require further investigation.

2.2.2 Audit committee meeting on audit quality

Another feature that affects the quality of audit committee is the frequency of meetings. Extant literature in this aspect suggested that firms with the higher number of audit committee meetings experience less financial problems and higher monitoring and control (Abbott et al., 2004; Xie et al., 2003). According to this stream of literature, audit committees that meet regularly during the financial year are associated with effective monitoring. The more frequent they meet, the more efficient they discharge their oversight responsibilities. Consistently, Krishnan and Visvanathan, (2009) show that the firms with higher number of audit committee meetings demand more assurances and higher quality audit from their auditors. In order to provide more assurances and higher

quality of external audit, the auditors may need to perform additional audit work in terms of enlarging the audit scope and increasing the audit testing levels, which results in both higher audit fees and higher audit quality. As a result, the higher the frequency of an audit committee meeting the more its effective monitoring function.

Mohammed, Joshua, Adabenege and Aniette (2017). examines the effects of audit committee expertise and meeting on audit quality of listed consumer-goods companies in Nigeria covering a period of eleven (11) years (2006 – 2016). Longitudinal panel research design was adopted for the study. The results show that audit committee expertise and meeting have positive and non-significant effects on audit quality of listed consumer goods companies in Nigeria.

Hoitash and Hoitash (2009) study the association between audit committee meeting and audit quality. The study was conducted in Australia and data were collected using questionnaires on 2,393 public companies audited by large and small auditors in the year 2004. The finding reveals that frequency of audit committee meeting is positively associated with audit quality and that strong audit committee might choose to authorize less non- audit services in order to contribute to audit quality.

Furthermore, Lifschutz, Jacob and Feldshtein (2010) examine the effect of audit committee meeting on audit quality in large public companies in Israel. The study uses multiple regression analysis on 100 largest public companies on the Tel-Aviv Stock Exchange. The study finds that audit committee meeting is positively and significantly associated with audit quality.

Saat, Karbhari, Xiao and Saed (2012) assessed the characteristics of audit committee members in 221 listed firms in Bursa Malaysia. They review a negative relationship between the composition of audit committee exclusively by independent director and the convening of independent committee members meeting with the external auditor without executive officer's presence and firm performance.

Modum, Robinson and Onyeonu (2013) "did a study on content analysis of the effect of audit committee characteristics on earnings per share of quoted companies on the Nigerian stock exchange 2006-2012. the study uses secondary data on corporate financial performance represented by earnings per share as dependent variable and audit Committee sizes, Composition, frequency of meetings and regularity of members' attendance, as independent variables, all collected from annual financial reports of the companies quoted on the stock exchange within the study period to test the hypothesis shows that : Audit committee frequency of meetings have significant positive effect on the financial performance of quoted non-financial companies on the Nigerian Stock Exchange. The SPSS was used to do the regression analysis which showed that there was a significant positive relationship between frequency of meetings, regularity of members' attendance and performance of quoted non-financial companies as in their earlier study on perception."

Most of the companies had very low financial performance and had ineffective audit committees. This study could not simply corroborate the earlier one because while the perception of the managers reflected their expectations of the role and impact of the audit

committees, the reality on ground as shown by the relationship between the quality of audit committee and financial performance was that Nigerian companies have not really benefited from the existence of these audit committees. Critically, these firms generally scored very low in these indices hence their equally low earnings per share. In their study, they had used a wide range of non-financial companies from a pool of 180. These companies ranged from agro-allied, automobile, aviation, consumer goods etc. This broad spectrum of industries made it difficult to evaluate specific industry trend such as oil marketing as these non-financial companies do not have same financial outlay.”

Cornett, McNutt, and Tehranian (2009) investigated the relationship between corporate governance and earnings management at large U.S. bank holding companies. They aimed at studying how audit committee meetings can constrain earnings management. They measured audit committee meetings after controlling for firm size, and reviews that audit committee meetings are significantly negatively related to earnings management. That is to say, as audit committee meetings increases, monitoring of the bank increases and the bank managers are less likely to inflate income by underreporting loan losses and/or over reporting securities gains.

Salloum, Azzi and Gebrayel (2014) “aimed to highlight the impact of audit committee characteristics on Lebanese financially distressed and non-distressed banks. The study examined four characteristics of the audit committee (i.e. size, composition, frequency of meeting and financial expertise. The study found that the distressed banks had a significant negative relation with the meeting frequency of the audit committee. The study added that meeting frequency plays an important role to ensure audit committee

effectiveness and the audit committee with frequent meetings is able to help audit committee members to ensure the integrity of financial reporting, to provide better monitoring and to review effectively the operations.”

Laith (2015) examined the relationship between audit committee characteristics, audit firm quality and companies’ profitability. The study aimed to highlight the role of audit committee and external audit in enhancing companies’ profitability. Since there were contradictions in previous studies results, there was a need to test these relationships in Jordanian context to provide empirical evidence on this issue, especially after the corporate governance application became mandatory since 2009. The study used industrial sector, which from a sample of 91 companies, 69 companies were included in the study, and the other 22 companies were excluded due to being newly listed or delisted during the study period (2009-2014). Multiple regression were used to analyse the data, the result showed positive relationships between audit committee meeting, and companies profitability, such results would be beneficial to companies’ corporate governance committees to play their supervisory role.”

Hassan (2013) investigated financial reporting quality and monitoring characteristics in a Sample of 32 manufacturing firms in Nigeria during the period 2007 to 2011. The result Shows that the audit committee meetings have a positive relationship with financial information quality in Nigerian listed manufacturing firms. Beasley, et al. (2000) examined the relationship between frequency of audit committee meetings and the likelihood of financial statement fraud. They review that the nature of fraud differs by industry. They donot find convincing evidence that companies involved in fraud have

fewer audit committee meetings. The possible reason for this result could be a result of the study focusing on one year only. This makes the statistical tests and generalization of their findings unreliable.

Ebrahim, Faudziah and Abdullah (2014) “examined the relationship between audit committee characteristics and firm performance in Oman. Their study revealed a positive association between audit committee meeting to firm performance but not significant. On the other hand, a negative but insignificant relationship was found between audit committee independence and firm performance. Moreover the study revealed that the foreign members of the board have a significant moderating effect on the relationship between audit committee independence and firm performance.”

Thoopsamut (2008) examined the relationship between audit committee characteristics, audit firm size and earnings management in quarterly financial reports of companies listed in the Stock Exchange of Thailand. The study reviews that, the number of meetings of audit committees is not significantly related to quarterly earnings management. Another plausible explanation for the absence of findings on the effect of the frequency of audit committee’s meetings is that the number of audit committee meetings may not reflect committee diligence. This is supported by some evidences such as that of Turley and Zaman (2007) that used a case study app tobin’s Q ch, interviewing nine individuals at one U.K company, including the audit committee chair, internal and external auditors and senior managers. They reviews that the audit committee’s greatest impact comes through informal processes. The audit committee tends not to raise complex, probing questions or views during board or audit committee meetings, but they influences

governance outcomes through informal meetings with auditors. Sharma, Naiker and Lee (2009) reviews evidence that the number of audit committee meetings is negatively associated with multiple directorships, audit committee independence, an investment decisions. The results of an experiment with 263 reasonably informed investors indicated that investors viewed the audit committee as more independent and effective and made more favorable investment decisions when no ties were present than when there were ties (social or professional) between audit committee members and the CEO. Further, audit committees with professional ties are viewed as more independent, competent, and effective than those with social ties. Results also indicated that both independence and competence mediate the relationship between ties and effectiveness. In all, the results indicated that knowledge of ties between the CEO and audit committee members significantly influences investors' assessments about audit committee effectiveness and investment decisions. However, the studies by Zhou and Chen (2004), Thoopsamut (2008), Cohen et al., (2014), Turley and Zaman (2007), Beasley, et al. (2000), Xie et al. (2001), Hassan (2013), Abbott et al., (2000) investigated audit committee meetings using secondary data and parametric tools of analysis, but they failed to complement their analysis with primary data and this makes their contributions limited. Saatet al., (2012), and Sharma et al., (2009) examined the frequency of audit committee meetings and firm performance, while this is a good effort, they basically used secondary data in the analysis. This study involves the use of both the primary and secondary data to evaluate the impact of audit committee characteristics on performance of deposit money banks in Nigeria.

Allam, Adel and Sameh (2013) found that Relationship between audit committee characteristics comprises audit committee size, financial experience and audit committee independence on firm's value e.g. Financial, Operating and Stock Performance. 106 corporations from financial sector listed on the stock exchange market of Amman was sampled, with a total of 212 altogether, during the periods 2008 to 2009 sampled years was observed. The result of the findings revealed that audit committee has a significant effect on stock and audit quality of the company. Nevertheless, little studies stated on the effect of audit committees on Audit quality. The study period is two (2) year, it is too small to have a valid result, it will have no effect on Corporate Operating Performance, that findings is applicable to Jordan only.

Salloum, Azzi and Gebrayel (2014) aimed to highlight the impact of audit committee characteristics on Lebanese financially distressed and non-distressed banks. The study examined four characteristics of the audit committee (i.e. size, composition, frequency of meeting and financial expertise. The study found that the distressed banks had a significant negative relation with the meeting frequency of the audit committee. The study added that meeting frequency plays an important role to ensure audit committee effectiveness and the audit committee with frequent meetings is able to help audit committee members to ensure the integrity of financial reporting, to provide better monitoring and to review effectively the operations.

Ojeka, Iyoha and Francis (2014) accessed the influence of the effectiveness of audit committee on firm's performance. The researcher used some major characteristics of AC, they are audit committee independence, audit committee Financial Expertise, audit

committee size, and audit committee Frequency meeting. Return on capital employed, return on equity and audit quality were the key financial indicators used for measuring Performance. Data were collected from twenty- five selected manufacturing firms for the period between 2004 to 2011, making the total of 110 manufacturing firms. Sampling technique employed was judgmental non-probability. Regression and correlation of 25 Empirical analysis of sampled size was carried. A positive significant connection among independence of AC and Audit Committee Financial Expertise Return on equity, return on capital employed and audit quality. From this particular study it was recommended by the researcher that Audit Committee can be further effective when making sure Audit Committee memberships comprised of independent non-executive directors, and to ensure membership maintained financial experts most especially in accounting aspect should be among the audit committee, lastly ensure meetings of the committee are designer in the direction of tackling important issues relating to their responsibilities that can improve efficiencies and integrity of audit quality of the Firm. Manufacturing firms were selected as the sampled firm. Data was generated through primary source, however data collection should have been from Secondary source to safeguard the dependability of the financial data, Data analysis were presented through regression and correlation, rather panel would have been better employed, conclusions of the study presented revealed that size of audit committee, AC Frequency meetings has no Significant link with all the Performance Variables, which should not be generally accepted.

Bouaziz (2012) examines the effect of audit committee characteristics on Tunisian company's audit quality. Looking at effect of presence of AC on Audit quality of Tunisian

company, both audit quality and return on equity were used as the key performance indicator. The study was conducted and sampled among twenty-six Firms Listed and quoted on stock exchange of Tunisian during a certain period of four (4) years between 2007 towards 2010. Validity of the hypothesis was tested using two Model of linear regression. The study above found out that audit committee effectiveness is actually determined on their Characteristics which has to do with membership independency, size of the committee, membership frequency meeting and expert committee members and experience. The significance of effect of audit committee Characteristics on Tunisian company Audit quality was also found out. The study was conducted among 26 listed firms on Tunisia stock exchange were sampled under four years' period, which is not a long period, the findings from the study in Tunisia might not be applicable in Nigeria due to differences in codes of corporate governance.

Amer (2016) examined the influence of board of directors and audit committee characteristics on audit quality. From the study it revealed that nine features can hinder the progress and efficiencies of a business's audit quality. Under Corporate business, those qualities were classified into board of director's Characteristics, board independence, size, chief executive officer duality, director ownership, and board frequent meetings. The audit committee Characteristics are size, audit committee Independence, frequency of meeting and financial expertise. The researcher sampled 56 firms listed on Egyptian stock exchange, two models are constructed and tested. Study period covers nine- good year from 2004 to 2012. From the two models constructed, nine postulates are derived from both models. To test these assumptions, GLS i.e. random

effects regression was used. From the study it was revealed that Audit Committee characteristics and board of directors influenced firm's audit quality. It also showed that size of board, frequency of board meeting and chief executive officer dualism are absolutely and importantly related with firm performance. Likewise, independence of AC, meetings frequency of AC and AC financial expertise are significantly and positively related with firm performance, while audit committee size has a considerably negative association with Firm Performance.

This study is applicable in Egypt, to test these hypotheses, random effects regression was used. Whereas panel would have been preferred. The result found that state committee size has a negative association with firm performance is not totally agreed with in taking decision.

Ravivathani and Danoshana (2013) consider effect of corporate governance on performance of listed financial institutions located in sri lanka. Key performance variable used by the researcher in explaining the performances of the Firm was return on equity and audit quality. Board Size, Board Frequency of Meeting and audit committee of the company were the independent Variables in measuring corporate governance. 33 listed financial institutions as the Population sampled, the study was carried out between the periods of 2008 towards 2012. Sampled data were generated from Secondary Sources. Based on that findings, Corporate Governance variables positively and significantly have effect on company's performance. Board size and audit committee size are positively having effect on firm's performance. On the other hand, Regular meeting has negative effect on Firm's Performance. Appropriate corporate governance Practices to improve

Performances of Listed Financial Institutions was recommended by the researcher. This study was carried out in Sri Lanka, so, the findings might not be applied by other country's policy maker, financial institution were selected as the population sampled, the findings might not be applicable in another sector, the study period is five years (5). Means of data collection through secondary source was not mentioned. The final finding on audit committee frequency meeting shows that ACFM has negative effect on audit quality, which require further investigation.

2.2.3 Audit committee independence and audit quality

Independence is an old attribute of the audit committee since the seminal work of Fama and Jensen (1983) which is based on the agency theory suggested that the independence of a nonexecutive director is a crucial quality that contributes to the effectiveness of audit committee monitoring function. Moreover, the report of the Blue Ribbon Committee (BRC) considers the independence as an essential quality of the audit committee in order to fulfill its oversight role. Based on this report, quite a number of studies have reviews a relationship between the independence of the audit committee, the level of supervision and the level of fraud in the financial statements by using the percentage of outside directors to measure independence (Marrakchiet al., 2001; Bradbury et al., 2006).

Aminu, Niki, Djoko and Erna (2018) examined Audit Committee Characteristics and Audit- Earnings Quality of manufacturing company in Indonesia Stock Exchange 2011-2014. This research analysis method using Moderating Regression Analysis (MRA). The result revealed that audit committee independence has a positive significant effect on Audit Quality.

Phaithun and Phapruek (2015). Investigate the effects of audit characteristics on audit independence, audit quality and audit effectiveness through moderating influences of stakeholder pressure and professional responsibility of certified public accountants (CPAs) and tax auditors (TAs) in Thailand. For the linkage of audit independence to audit quality, audit independence is positively related to audit quality.

Rainsbury, Bradbury and Cahan (2009) examined the impact of audit committee independence and audit quality. The study uses multiple regression technique on data from 87 firms in New Zealand in 2001. The result shows no significant association between audit committee independence and audit quality.

Goodwin–Stewart and Kent (2006) studied the relationship between audit committee characteristics and audit quality. The study uses multiple regression technique on data from 401 listed companies in Australia in 2000. The study finds negative non-significant relationship between audit committee independence and audit quality.

Chen, Moroney and Houghton (2005) examine the audit committee independence and audit quality. The study uses multiple regression technique on data from 458 listed companies in Australia in 2000. The finding of the study reveals a positive relationship between audit committee independence and audit quality. Audit committee member's independence is always a boost of external auditors' audit quality through their effective oversight functions on the external auditor relationship with the management.

Shir (2013) studies the role effectiveness of audit committee characteristics in achieving desired levels of audit quality. Secondary data collected from 255 listed companies on the Australian Stock Exchange in 2010. Multiple regression technique is used to analyze the

data and result shows that audit committee independence has negative non-significant effect on audit quality.

Yadirichukwu and Ebimobowei (2013) conduct their study on the effects of audit committee timeliness of financial reports that reflect external auditor's quality audit. The study used diagnostic test and multiple regression analysis on data from 35 listed firms in Nigeria between 2007 and 2011. The finding shows that audit committee independence is significantly related to audit quality.

Chen, Moroney and Houghton (2005) examined the relationship between independent audit committees and audit quality using the ASX Top 500 (at the time of testing the list contained 510 firms) in 2000. They found that the ASX Top 500 companies with high percentages of non-executive directors on their audit committees were more likely to hire a specialist (high quality) auditor compared to these with low percentages of non-executive directors on their audit committees.

Salawu, Okpanachi, Yahaya and Dikki (2017) examines the effect of audit committee independence on audit quality of listed consumer goods companies in Nigeria covering a period of eleven (11) years from 2006 – 2016. Longitudinal panel research design was used for the study. The population of the study is the entire twenty- three (23) listed consumer goods companies on the Nigerian Stock Exchange as at 31st December, 2016 while, the census sample size is fifteen (15) companies. The eight (8) companies filtered out did not fall within the period of study and had incomplete data. The study made use of secondary data from published annual financial statements of the sample listed consumer goods companies in Nigeria. Descriptive (mean, standard deviation, minimum

and maximum) and inferential statistics (correlation and multiple regressions) were used for the study. The result shows that audit committee independence has no significant effect on audit quality of listed consumer goods companies in Nigeria. The study recommends that shareholders' representatives in the audit committee should be more than the board of directors' members to enhance the audit committee independence.

Salawu, Okpanachi, Yahaya and Dikki (2017) examined the effect of audit committee characteristics on audit quality of listed consumer goods companies in Nigeria covering a period of eleven (11) years from 2006 – 2016. Longitudinal panel research design was used for the study. The study made use of secondary data from published annual financial statements of the sample listed consumer goods companies in Nigeria. Multiple regression was used to analyze the data. The result showed that audit committee independence has no significant effect on audit quality of listed consumer goods companies in Nigeria.

Fodio, Foluke and Victor (2014) investigated the effects of audit committee characteristics on the quality of financial reporting by deposit banks in Nigeria. Their study employed a multivariate regression analysis to assess the aggregate and individual effect of certain audit committee characteristics on financial reporting of seven banks. The study documents a positive relationship between audit committee independence and quality of financial reporting. However, an aggregate significant effect of audit committee characteristics on financial reporting quality was established. Their study was only limited to sample banks and they did not look at other industries such as the oil and gas companies.

Rahmat, Iskandar, and Saleh (2009) examined the audit committee characteristics in a financial and non-financial distressed companies. 146 public listed companies in Bursa Malaysia were the matched-pair samples. Results of logistic regressions showed financially distress is caused by many audit committee financial experts. They explained that audit committee with enough accounting and finance knowledge will monitor financial and operational reports more efficient.

Ame (2012) examined the relationship between audit committee effectiveness on audit quality of Nigerian money deposit banks listed on the Nigerian Stock Exchange. The study covers a period of 2007-2011 and the sample consists of fifteen banks that existed throughout that period. Using multiple regression technique to analyze the data, these study concludes that there is no significant relationship between audit committee independence and audit quality of Nigerian money deposit banks. He also opined that audit committee independence promoted as improving corporate governance in non-financial firms is not applicable to financial firms.

Abbott, Parker and Peters (2000) examined the impact of audit committee on mitigating financial misstatements using a sample of 83 firms which misstated financial reports in the period 1991-1999. They hypothesized that the presence of an audit committee which meets the BRC's recommendation for minimum committee size is associated with a lower incidence of financial reporting misstatement. On the other hand, they observed that independence of the committee is significant and negatively related to misstatement.

In a meta-analysis on Corporate Governance and Earnings Management by García-Meca and Sánchez-Ballesta (2009), audit committee independence is noted to be one of the major corporate governance mechanisms used in constraining earnings management.

Zhou and Chen (2004) investigated the relationships among audit committees, board Characteristics and earnings management by commercial banks during the period 2000 to 2001. They hypothesized that Banks with larger, more independent, more active audit committees and audit committees with greater financial expertise and governance expertise are less likely to engage in earnings management through loan loss provisions. Using the proportion of outside directors in the audit committee to proxy audit committee independence, they review that audit committee independence plays an important role in constraining earnings management.

Amer (2016) examined the influence of board of directors and audit committee characteristics on firm's audit quality. From the study it revealed that nine features can hinder the progress and efficiencies of a business's audit quality. Under Corporate business, those qualities were classified into board of director's Characteristics, board independence, size, chief executive officer duality, director ownership, and board frequent meetings. The audit committee Characteristics are size, audit committee Independence, frequency of meeting and financial expertise. The researcher sampled 56 firms listed on Egyptian stock exchange, two models are constructed and tested. Study period covers nine- good year from 2004 to 2012. From the two models constructed, nine postulates are derived from both models. To test these assumptions, GLS i.e. random effects regression was used. From the study it was revealed that Audit Committee

characteristics and board of directors influenced firm 's audit quality. This study is applicable in Egypt, to test these hypotheses, random effects regression was used. Whereas panel would have been preferred. The result found that state committee size has a negative association with firm performance is not totally agreed with in taking decision.

2.2.4 Audit committee gender diversity

A lot of researches focus on gender difference in corporate management and investment behavior between male and female. Using personal account data for over 35,000 households from a large discount brokerage, 4 Barber & Odean (2001) document that men trade 45 percent more than women. Trading reduces men's net returns by 2.65 percentage points a year as opposed to 1.72 percentage points for women. But instead, Richard, Erik & Luo (2009) find there is little evidence that gender influences trading activity which is induced by overconfidence.

Atkinson, Baird & Frye (2003) find that male and female-managed funds do not differ significantly in terms of performance, risk, and other fund characteristics. Despite the similarities between male and female managers, they find evidence that gender influences the decision making of mutual fund investors. What's more, the net asset flows into funds managed by females are lower than by males, especially for the manager's initial year managing the fund. Using data from the U.S. mutual fund industry.

Niessen & Ruenzi (2007) find that female managers are more risk averse, follow less extreme and more consistent investment styles and trade less than male managers. Although female and male managers do not differ in average performance, female

managers receive significantly lower inflows. Examining data on S&P 1500 firms over the period 1992–2004.

Laith (2015) examined the relationship between audit committee characteristics, audit firm quality and companies' profitability. The study aimed to highlight the role of audit committee and external audit in enhancing companies' profitability. Since there were contradictions in previous studies results, there was a need to test these relationships in Jordanian context to provide empirical evidence on this issue, especially after the corporate governance application became mandatory since 2009. The study used industrial sector, which from a sample of 91 companies, 69 companies were included in the study, and the other 22 companies were excluded due to being newly listed or delisted during the study period (2009-2014). Multiple regression were used to analyse the data, the result showed no significant relationship between audit committee composition, audit committee members literacy, audit quality and companies profitability. Such results would be beneficial to companies' corporate governance committees to play their supervisory role.”

Krishnan & Parsons (2008) explore whether gender diversity in senior management influences the quality of reported earnings. Companies with more women in senior management are found to be more profitable and have higher stock returns after initial public offerings than those with fewer women in the management ranks. Earnings quality is positively associated with gender diversity in senior management.

Huang & Kisgen (2009) examine whether men and women differ in corporate financial decisions. They find that companies with female CFOs make fewer acquisitions, and

acquisitions made by female CFO firms have announcement returns approximately 2% higher than those made by male CFO firms. Women appear to undertake greater scrutiny and exhibit less hubris in acquisition decisions. Female CFOs issue debt less frequently, but debt and equity issuances have higher announcement returns for female CFO firms. However, female CFO capital decisions are no more likely to move a firm toward its target leverage. Using a large sample of Chinese listed firms,

Ittonen, Miettinen & Vahamaa (2008) suggest that firms with female audit committee representation have significantly lower audit fees. From the audit demand perspective, these findings may indicate that female representation on audit committees reduces the need for assurance provided by external auditors. Alternatively, from the supply-side perspective, female representation may decrease audit fees by affecting the auditor's assessment of audit risk.

Ivanova-Stenzel & Kubler (2005) find that female and male performance differ most in mixed teams with revenue sharing between the team members, as men put in significantly more effort than women. Their data also indicate that women perform best when competing in pure female teams against male teams whereas men perform best when women are present or in a competitive environment.

Mannix & Neale (2005) find that gender composition has no relation with performance outcomes of the group. By examining the performances of mixed and same-sex dyads on a group assignment for a course 'Financial Statement Analysis and Auditing',

Seyyedi, Mahdi and Mohsen (2012) investigated the relationship between audit committee and audit quality. The study adopted a descriptive survey and found a correlation between audit committee and audit quality. The independent variable in their study was taken as audit committee and the focus of the study was mainly on the impacts of this variable on audit quality. The statistical population included 1146 Official Accountants. Using simple-random sampling to determine the sample size, 94 persons were selected as the statistical sample. The results revealed a statistically significant relationship between audit committee and audit quality. The findings also showed that the audit committee can promote the effectiveness of the independent auditors, internal auditors, and internal controls, disclosure of the financial statements and the amelioration of the auditing reports. The study argued that the audit committee should be allowed to supervise the management and as such be included in a company's organisation structure.

Wan-Hussin and Haji-Abdullah (2009) examined the relationship between audit committee and the quality of financial statements in Malaysia. The study found that the presence of a big audit committee is related positively with quality of financial reporting. Similarly, Rainsbury (2009) studied the relationship between the quality of audit committee and the financial reporting quality. The study found no significant relationship between the quality of an audit committee and the quality of financial reporting. They remarked that this surprising result suggests that the benefits of high quality audit committee may be less expected by regulators and decision makers.

In Malaysia, Ismail, Iskandar, and Rahmat (2008) investigated the relationship between audit committee and external audit with quality of financial reporting of 45 companies listed on the Bursa, Malaysia. The study found that only the audit committee with multiple directorship members is positively related to the quality of reporting. The study also found no relationship between the audit quality and quality of corporate reporting.

Abdulkadir and Noor (2013) examined whether audit committees are associated with improved financial reporting quality for a sample of Nigerian listed companies prior to and after a corporate governance code mandated new regulations for audit committees in 2003. Using a sample of 70 companies listed on the Nigerian Stock Exchange, the study used archival data in the form of companies' annual reports to measure the association between audit committees and improved financial reporting quality.

Yousef, Nur, Khairil and Mohammad (2014) investigated the role of audit committee characteristics and external audit on earnings management using a sample of industrial companies listed on the Amman Stock Exchange (ASE). Evidence from prior studies suggested that audit committees and external auditors play a central role in ensuring the integrity of financial reporting process. The audit committee is perceived as a liaison between the external auditor and the board, an audit committee bridges the information asymmetry between them. While the external audit is perceived as an effective third party which helps mitigate information asymmetry and conflict of interests between management and investors?

Bedard, Chtourou and Courteau (2004) investigated the effect of audit committee characteristics, namely, expertise, independence and activity, on the extent of earnings

management based on a sample of 300 U.S. firms for 1996. The study revealed that aggressive earnings management is negatively associated with fully independent audit committees. These results support the Sarbanes-Oxley Act (2002) mandating complete independence of the audit committee. Benkel, Mather and Ramsay (2006) using a sample of 666 firm-year observations for the fiscal years 2001, 2002 and 2003. The study found that higher levels of audit committee independence are associated with reduced levels of earnings management. Using data of UK-listed companies in the fiscal years 2000 and 2002, Lei (2008) suggested that audit committee independence constrain the level of earnings management.

Soliman and Ragab (2014) examined the association between the audit committee effectiveness, audit quality and earnings management practices of most active 50 Egyptian companies listed on the Egyptian Stock Exchange of the non-financial sector during the period 2007-2010. The results indicated that audit committees independence have significant negative association with earnings management.

Garcia-Meca and Sanchez-Ballesta (2009) did a study using the data of 35 empirical studies, and Kent, Routledge, and Stewart (2010) using a sample comprised of Australian public companies listed on the Australian Stock Exchange in 2004. Both of them supported the notion that the independence of the audit committee constrains earnings management.

Xie, Davidson and DaDalt (2003) examined the effect of some characteristics of the audit committee on constraining earnings management and found that audit committee independence is not significantly associated with reduced levels of earnings management.

AbdulRahman and Ali (2006) using Malaysian listed firms, their study found an insignificant relationship between independent audit committees and earnings management. Siregar and Utama (2008) used Indonesian companies listed on the Jakarta Stock Exchange to examine the effectiveness of some corporate governance practices on earnings management. The study sample contains 144 firms and covers the periods 1995–1996, and 1999–2002. The study failed to detect a relationship between audit committees' independence and earnings management.

Habbash (2011) found an insignificant relationship between independent audit committees and earnings management by using a sample that consists of all companies listed on the Saudi Stock Market and that covers the period of 2006 - 2009. Waweru and Riro (2013) used panel data of 148-firm years obtained from the annual reports of the 37 companies listed on the Nairobi Stock Exchange, the study found that independence of the audit committee is not significantly related to earnings management.

Lin, Li and Yang (2009) using data from Chinese firms listing in Hong Kong 2004 to 2008, found that an audit committee size is associated with reduced levels of earnings management. Moreover, Kent, Routledge and Stewart (2010) found a negative association between audit committee size and earnings management in Australian companies. Lin and Hwang (2010), employing meta-analytic techniques to the data from nearly 48 empirical studies, also found a negative and highly significant association between audit committee size and earnings management.

Abdulkadir (2012) examined whether the formation of audit committees and its characteristics are associated with improved financial reporting quality. The sample of

the study is the Nigerian listed companies prior to and after the introduction of mandatory audit committee requirements in The Code of Corporate Governance in 2003. The researcher uses an archival data from the annual reports, NSE and SBA Interactive. The model by Dechow and Dichev (2002) was used to measure the earnings quality as proxy for financial reporting quality. The result indicates that there was some evidence that earnings quality significantly reduced in the years after audit committee formation, thus providing some support for the notion that the formation of the audit committee improved financial reporting quality. The literature review also shows that there was a weak association between the characteristics of audit committee and improved financial reporting quality. The audit committee independence and expertise are found to significantly associate with improved financial reporting quality. Audit committee meets 4 to 5 times a year and audit committee size consists of 4 members. The result also shows that 70% of the sample firms employed Non-Big 4 auditors. These findings provide evidence on the mandatory audit committee requirement under the NSE listing rules on how the companies respond towards The Code.

Abdullah, Qaiser, Ashikur, Ananda and Thurai (2014) examined the association between audit committee characteristics and firm performance among public listed firms in Malaysia. This study employed EVA as performance measurement tool. The sample is 75 firm year observations and covers fiscal years 2008-2010. The study found that audit committee independence is positively associated with firm performance while audit quality is negatively associated in Malaysia. Overall, audit committee characteristics have

a positive effect on firm performance. The results suggest that Big 4 firms have a negative impact on value based measure in Malaysia.

Peter (2007) investigated whether the formation of audit committees and their characteristics are associated with improved financial reporting quality. Modified versions of the models developed by Jones (1991) and Dechow and Dichev (2002) provided three measures of earnings quality, which were used to proxy for financial reporting quality. The audit committee characteristics investigated were: independence, expertise, activity, size and tenure. The study used both a modified version of the traditional Jones (1991) discretionary accruals model and the more recently developed accrual estimation error model from Dechow and Dichev (2002) to estimate proxies for financial reporting quality. Finally, this research included changes tests in addition to cross-sectional tests to reduce the likelihood of problems with omitted variables. There was some evidence that earnings quality measured using the modified Jones (1991) model significantly reduced in the year following audit committee formation. However, a comparison of these results with those of tests using earnings quality measures based on Dechow and Dichev (2002) indicates that audit committees appear more effective at reducing opportunistic earnings management, rather than total accrual estimation errors. Second, there was little evidence of a significant association between the characteristics of audit committees and improved financial reporting quality. Consequently, it can be suggested that, once audit committees are established, variations in their characteristics do not significantly affect financial reporting quality. These conclusions provide support

for the mandatory audit committee requirement under the Australian Stock Exchange (ASX) listing rules, which became effective from 1 January 2003.

Andra (2015) investigated the association between audit quality and corporate governance attributes in the case of Romanian`s listed entities. In order to achieve this goal, a multiple regression was constituted with the following variables: audit quality as a dependent variable, and a series of corporate governance elements as independent variables, while firm size, firm age and industry being designed as controls. The full sample consists of the entities listed on the Bucharest Stock Exchange in the period 2008-2012, compiling both tier I, II and III companies.

Kantudu and ismaila (2015) examined the impact of monitoring characteristics on financial reporting quality of the Nigerian listed oil marketing firms. Financial reporting quality is represented with the qualitative characteristics of financial statement. Data for the study were obtained from an audited annual report and accounts of the sampled oil marketing companies for twelve years covering 2000 to 2011. Multiple regression was used to analyse the data using Stata version 12.0. It was discovered that Power separation, independent directors, managerial shareholdings and independent audit committee are all significant implying monitoring characteristics influenced financial reporting quality of quoted oil marketing firms in Nigeria. It was concluded that a change in financial reporting quality was strongly driven by power separation, board independence and managerial shareholdings. Also that firms characterized by two tier system of CEO, higher number of independent directors and greater managerial

shareholdings have higher financial reporting quality. In addition, the quality of the financial report of the firms is strongly and positively steered by size of the firms.

Chaudhry (2013) examined the impact of audit committee characteristics on financial reporting quality in the context of a large sample of UK companies over the period 2007-2010. The notion of financial reporting quality is assessed by looking at the audit quality and earnings quality of the firms. This study utilized the audit fee and non-audit fee ratio as its proxies for audit quality and accruals based earnings management models as its proxies for earnings quality. The findings from the multivariate analysis show that audit committee meetings and financial expertise exert a significant positive impact on audit fees. Investigating expertise further, this study found no support for the notion that accounting expertise influences audit fees, however a significant positive influence on audit fees is recorded for the non-accounting financial expertise. However, the holding of additional directorships has a significant negative impact on audit fees. This study also finds that audit committee members' financial expertise has a negative and significant impact on non-audit fee ratio suggesting a strong support of members with financial expertise on issues relating to auditor independence. [This study also records a significant positive impact of the holding of additional directorships on the provision of non-audit fee ratio, Furthermore, the study found broadly consistent evidence that audit committees meeting three or more times per year and fully independent audit committees exerts a significant positive impact on the quality of reported earnings. This study also finds some evidence (depending on the earnings model used) that the level of ownership of audit committee members also exerts a positive impact on the quality of reported earnings, On

the other hand, this study finds evidence that the busyness of audit committee members (busyness defined in terms of the holding of board seats in other companies) has a significant negative impact on the quality of reported earnings. The composite variables (i.e. ACE1, ACE2, ACE3 and ACE4) representing those companies that satisfy all aspects of current best practice in terms of audit committee composition and operation, has a positive impact on the quality of reported earnings.

Chadanat (2015) investigated the relationships between the Audit Quality and the Earnings Quality as well as between the Board Audit Committee and the Earning Quality of the listed firms in 4 industrial groups in the Stock Exchange of Thailand (SET) which are: 1) Agro and Food, 2) Resource, 3) Technology, and 4) consumer goods from 2009 to 2013. The earnings quality was measured by using the Modified Jones Model and the Total Accruals were calculated by adopting the cash flow concept. The data were collected by using panel data with random effects. The results show that the auditor firm size has a negative correlation with the discretionary accruals. In addition, there is a positive correlation in changing from the smaller audit companies to the larger ones. For the auditors' opinion, it was found that when the auditors gave a remark on the going concern, there was a negative correlation with the Discretionary Accrual and it resulted in the good earnings quality. The opposite result appeared when the auditors did not give an opinion about the financial statements and gave an observation about the going concerns, which resulted in the poor earnings quality. However, the relationship between the efficiency of the board Audit committee and the audit quality was not found and cannot be concluded.

Yahya (2013) examined the relationship between the internal corporate governance mechanisms related to the board of directors, the audit committee characteristics and the performance of listed companies on Saudi Stock Market (TADAWL) in 2010, excluding financial companies. The theoretical foundation of this relationship was provided by the agency and institutional theory. The data on the relationship between the audit committee and internal audit function were collected through a mail questionnaire. Of the 135 questionnaires distributed, 73 questionnaires, representing a response rate of 54.07 percent, were returned of which 62 (45.93 percent) were usable responses. Other information on firm performance, board of directors and audit committees characteristics was obtained from the annual reports of the respective companies (year-ending 2010).

By using the multiple regression analysis, the results show that the effect of internal corporate governance variables on audit quality and Tobin's Q was somewhat different. The results indicate that the proportion of non-executive directors was found to be positively significant to audit quality. However, the board size was found to be negatively significant to Tobin's Q. For audit committee characteristics, the extent of audit committee reviews of IA proposals variable was reported to be positively significant to both measures of firm performance (audit quality and Tobin's Q). In relation to the practical and theoretical contribution, this study provides theoretical validity by suggesting that institutional theory may be more appropriate than agency theory in describing the practices of corporate governance in developing countries such as Saudi Arabia. From a practical perspective, the findings of this study provide feedback to the

regulators (e.g. Capital Market Authority) and the companies in Saudi Arabia in a number of ways.

Semiu and Temitope (2010) did a study on audit quality, corporate governance and firm characteristics in Nigeria. The study provided evidence on corporate governance, audit quality, and firm related attributes from a developing country, Nigeria. Logistic regression was used in investigating the questions that were raised in the study. Findings from the study show that ownership by non-executive director has the possibility of increasing the quality of auditing. Evidence also exist that size of the company and business leverage are important factors in audit quality for companies quoted on the Nigerian Stock Exchange. The study suggests that the composition of non-executive directors as members of the board should be sustained and improved upon in order to enhance audit quality.

2.3 Theoretical Framework

The development of audit committee attributes as a critical component of corporate governance has been affected by theories from a number of disciplines, including: Finance, Accounting, Law, Management, and Organisational Behaviour (Mallin, 2010).

In other words, a number of different theoretical frameworks have recently evolved to explain and analyse audit committee as a component of corporate governance (Solomon, 2007). The seminal work of Jensen and Meckling (1976) proposed an Agency Theory which was based upon conflicts of interest between various contracting parties, namely: shareholders, corporate managers, and debt holders. Since then a huge body of literature

has evolved to explain both the nature of these conflicts and the means by which they may be resolved. Blair (1995) identified major perspectives for the corporate governance issue: Agency Theory and Stakeholder Theory. In addition, the relevance of Stewardship Theory and Resource Dependence Theory (RDT) are also supported in a number of different corporate governance studies. The development of corporate governance is a global occurrence and, as such, is a complex area including legal, cultural, ownership, and other structural differences. Therefore, some theories may be more appropriate and relevant to some countries than others (Mallin, 2010). Despite the concept of audit committee encompasses a number of theories; the researcher believes that agency theory and stakeholder theory will make the most significant contribution to the current study.

2.4.1 Agency Theory: The Agency theory view directors as the agent of the shareholders and therefore there is a need for them to act in the best interest of the shareholders. In this situation, sometimes the agent may not act in the best interest of the shareholders which result in an agency loss situation. The agency theory stress the separation of ownership (principal) and managers (agent) in an organization, therefore it is believed that managers may sometimes pursue opportunistic behaviour which may conflict with the goal of the owners (principals) and therefore destroy the wealth of the shareholders. Advocates of the agency approach view the manager (directors) as an economic institution that will mitigate the problems and serves as the guardian to shareholders (Hermalin & Weisbach, 2000; Fama & Jensen, 1988).

The Agency theory having its roots in economic theory was expounded by Alchian and Demsetz in 1972 and further developed by Jensen and Meckling in 1976. The Agency

theory is defined as the relationship between the principals, such as shareholders and agents such as the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hire the agents to perform the work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clarke, 2004). Meanwhile, Daily, Dalton and Canella (2003) argued that two factors could influence the prominence of agency theory. First, the theory is conceptual and simple theory that reduces the corporation to two participants of managers and shareholders. Second, agency theory suggests that employees or managers in organizations can be self-interested. The agency theory states that shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2000). Such a problem was first highlighted by Adam Smith in the 18th century and subsequently explored by Ross in 1973, and the first detailed description of agency theory was presented by Jensen and Meckling in 1976.

Indeed, the notion of problems arising from the separation of ownership and control in agency theory has been confirmed by Davis, Schoolman and Donaldson in 1997. With agency theory, the agent may be succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspirations of the principal and the agent's pursuits, even with the understanding of risk defers in its approach. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008). It has been argued that instead of providing fluctuating incentive payments, the agents would only focus on projects that have a high return and

have a fixed wage without any incentive component. Although this will provide a fair assessment, but it does not eradicate or even minimize corporate misconduct (Muogbo, 2013). Here, the positivist approach is used where the agents are controlled by principal-made rules, with the aim of maximizing shareholders value. Hence, a more individualistic view is applied in this theory (Clarke, 2004). Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners.

2.4.2 Stewardship Theory: The Stewardship theory presents a contrasting view to agency theory. This theory asserts that, there will not be any major agency costs, since managers are naturally trustworthy (Donaldson 1990; Donaldson & Preston 1995, as cited in Aduda, Chogii & Magutu, 2013). According to the perspective of the 'stewardship theorists, managers are inherently trustworthy and faithful stewards of the corporate resources entrusted to them. Managers are good stewards of the organization and it is in their own interest to work to maximize corporate profits and shareholder returns. Therefore “proponents of stewardship theory argue that firm performance is linked to a majority of inside directors and combined leadership structure (Aduda, Chogii & Magutu, 2013). Stewardship theory sees a strong relationship between managers striving to successfully achieve the objectives of the firm, and the resulting satisfaction accorded to investors or owners, as well as other participants in the enterprise (Clarke 2004). A virtuous circle is evident in stewardship theory, where stewards protect and maximize shareholder wealth through firm performance, which results in maximizing the

stewards' utility. Therefore, by improved firm performance, the organization satisfies most groups that have an interest in the organization. Thus, stewardship theory supports the need to combine the role of the chairman and CEO, and favor boards consisting of specialist executive directors rather than majority non-executive directors.

2.4.3 Stakeholder Theory: The Stakeholder theory was embedded in the management discipline in 1970 and was gradually developed by Freeman in 1984, which incorporated corporate accountability to a broad range of stakeholders. Wheeler, Colbert and Freeman (2003) argued that the stakeholder theory is derived from a combination of the sociological and organizational disciplines. Indeed, stakeholder theory is less of a formal unified theory and more of a broad research tradition, incorporating philosophy, ethics, political theory, economics, law and organizational science.

Donaldson and Preston (1995) opined that this theory focuses on managerial decision making and the interests of all stakeholders have intrinsic value, and no sets of interests are assumed to dominate the others. Unlike agency theory in which the managers are working and serving the stakeholders, stakeholder theorists suggest that managers in organizations have a network of relationships to serve the like of the suppliers, employees and business partners. It argued that this group of network is important other than owner-manager-employee relationship as in agency theory (Wheeler, Colbert & Freeman, 2003). On the other end, Sundaram and Inkpen (2004) contend that the stakeholder theory attempts to address the group of stakeholders that deserve and require the attention of the management. Since the purpose of all stakeholders in business is to obtain benefits, it has been argued that the firm is a system, where there are stakeholders and the purpose

of the organization is to create wealth for its stakeholders. Also, since the network of relationships with many groups can affect decision-making processes, as the stakeholder theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders (Babalola, 2014).

2.4.4 Resource Dependency Theory: Whilst the stakeholder theory focuses on relationships with many groups for individual benefits, the resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm. Hillman, Canella and Paetzold (2000) contend that resource dependency theory focuses on the role that directors play in providing or securing essential resources for an organization through their linkages to the external environment (Babalola & Adedipe, 2014). Meanwhile, Wanyama and Olweny (2013) agreed that resource dependency theorists provide focus on the appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success. For example, outside directors who are partners to a law firm provide legal advice, either in board meetings or in private communication with the firm executives that may otherwise be more costly for the firm to secure. It has been argued that the provision of resources enhances organizational functioning, firm's performance and its survival (Daily, Dalton & Canella, 2003). According to Hillman, Canella and Paetzold (2000) that directors bring resources to the firm, such as information, skills, and access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Directors can be classified into four categories of insiders, business experts, support specialists and community influential.

First, the insiders are current and former executives of the firm and they provide expertise in specific areas such as finance and law on the firm itself as well as general strategy and direction. Second, the business experts are current, former senior executives and directors of other large for-profit firms and they provide expertise on business strategy, decision-making and problem solving. Thirdly, the support specialists are the lawyers, bankers, insurance company representatives and public relations experts and these specialists provide support in their individual specialized field. Finally, the community's influential are the political leaders, university faculty, members of clergy, and leaders of social or community organizations.

This study adopts agency theory due to its relevance in resolving conflict that may arise between managers (agent) and shareholders (principal) of the companies, its empirical evidence by the study conducted by several scholars on board and audit characteristics and firm performance in developed countries, will link the variables concern in the Nigerian situation. Key postulations of agency theory serve as the bases for the adoption.

2.4 Summary

In this chapter relevant literatures on audit committee attributes on audit quality were reviewed and presented. Several research work carried out on the relation between committee attributes and audit quality both within Nigeria and globally has been reviewed in this section. Most of these studies looked that were within the Nigerian context were centred mostly on the financial institutions such as the deposit banks (Fodio et al, 2014; Okaro & Okafor, 2015). Those that looked at the non-financial sectors

(Modum, Robinson & Onyeonu, 2013) combined several industries into their sample variables and as such the specific trend in relation for a unique sector such as listed oil marketing companies within the NSE were not fully captured or lost in their bulk assessment. The aim of this study is to highlight the effects of the audit committee attributes on audit quality of quoted oil companies with focus in Nigeria.

The chapter started with the presentation of conceptual framework of the study and then followed by empirical literature on audit committee attributes and audit quality were also presented and discussed. The chapter ended with the discussion of the theoretical framework of the study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

For the purpose of this study, an Ex-post Facto research design was adopted. This is because the data was obtained from secondary sources through the firm's audited annual reports and accounts. .

3.2 Population, Sample and Sampling technique

The population of the study covers all the Nine (9) petroleum-marketing companies that are quoted on the first-tier of the Nigerian Stock Exchange as at 31st December 2011. These are Afro oil, Beco, Conoil, Eterna, Forte, Mobil, MRS, Total and Oando. For any company to be included in the working population, it must have been listed on the NSE, on or before 31 December, 2015. Secondly, it must have been quoted without being delisted between 2011- 2015. This criterion is established with a view to ensuring that the oil marketing companies have their published financial statement for the period covered by this study. Because of this filter the number of oil marketing companies reduced to seven (7)

3.3 Methods of Data Collection

Secondary data were used for this study and the data were obtained from the annual abstracts of the Statistical fact book of the Nigeria Stock Exchange the annual financial reports and statement of accounts for the selected quoted oil marketing companies in Nigeria covering the period under study. Hair, Anderson, Tatham, and Black (2007)

asserted that some of the advantages of using secondary data are that it saves time and cost of acquiring the information generated. It is helpful to acquire the actual state of phenomenon under study.

3.4 Technique for Data Analysis and Model Specification

Multiple panel regression techniques was used to analyze this data with the aid of Eview 9.0. The use of panel regression requires a choice between Fixed Effect model and Random Effect model. To achieve this, Hausman specification test is conducted to guide the choice of the appropriate model. The study also conducted diagnostic tests such as multicollinearity test and hetteroskedasticity test.

The audit committee attributes used in this study are; audit committee size, audit committee independence, audit committee meeting frequency and audit committee diversity. This study used the modified Dechow-Dichev Model as a proxy to measure audit quality thus:

Audit Quality is measured using the modified Dechow-Dichev Model

$$TCA = \beta_{0,j} + \beta_{1,j} CFO_{j,t-1} + \beta_{2,j} CFO_{j,t} + \beta_{3,j} CFO_{j,t+1} + \beta_{4,j} \Delta REV_{j,t} + \beta_{5,j} PPE + \epsilon_{jt} \dots\dots$$

Where:

$TCA_{j,t}$ = Firm j's Total Current Accruals in year t determined as

$$\Delta CA_{j,t} - \Delta CL_{j,t} - \Delta Cash_{j,t} + \Delta STDebt_{j,t}$$

$\Delta CA_{j,t}$ = Firm j's change in Current Assets between year t-1 and t

$\Delta CL_{j,t}$ = Firm j's change in Current Liabilities between year t-1 and t

$\Delta Cash_{j,t}$ = Firm j's change in Cash between year t-1 and t

$\Delta STDebt_{j,t}$ = Firm j's change in Short Term Debt between year t-1 and t

$CFO_{j,t}$ = Firm j's Cashflow from Operations in year t

$\Delta REV_{j,t}$ = Firm j's change in Revenue between year t-1 and t

$PPE_{j,t}$ = Firm j's value for Property Plant and Equipment for year t

$\beta_0 - \beta_5$ = coefficients.

ε_{jt} = Error term

The residuals from model 1 above represent the measure of audit quality.

The model of the study is therefore specified below:

$$AUDQ_{it} = \beta_0 + \beta_1 ACIND_{it} + \beta_2 ACMEET_{it} + \beta_3 ACSIZE_{it} + \beta_4 ACD_{it} + \beta_5 FS_{it} + \beta_6 AUTYP_{it} + \varepsilon_{it}$$

Where:

$AUDQ_{it}$ = Audit Quality of firm it at time t

$ACIND_{it}$ = Audit committee independence

ACM_{it} = The number of Audit Committee Meeting per annum of firm it at time t

$ACSIZE_{it}$ = Audit committee size of firm i at time t

ACD_{it} = Audit committee diversity (measured as 1 if there is a female also 0) of firm i at time t

FS = Firm Size (control variable) of firm i at time t (measured as natural log of total assets)

$AUTYP_{it}$ = Auditor type (control variable) measured as 1 for big 4 and zero otherwise.

β_0 = Constant term parameter to be estimated (is the average amount the dependent variable increases when the independent increases by one unit, other independents variables held constant).

$\beta_1 - \beta_6$ = the slope/gradient of the independent variables (partial derivatives)

ε_{it} = Error term assumed to satisfy the standard OLS assumption.

3. 5 Justification of Methods Used

This study used of ex-post facto research design since this study relied heavily on secondary data that are quantitative in nature and these data had already been collected by the study population. Secondary source of data collection was utilized because Hair et al (2007) asserted that some of the advantages of using secondary data are that it saves time and cost of acquiring the information generated. It is helpful to acquire the actual state of phenomenon under study. The choice of panel regression is justified by the fact that the study used panel data which is characterised by cross sectional and time series properties. Objective of regression technique is to minimize the error term with the view of finding the model or regression equation that explain the data. For variables which are dichotomous such as the diversity of the audit committee and the use of any of the Big 4 auditing firms for their external auditing, dummy variables is employed in the statistical analysis.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

4.2 Data Analysis and Results

This section discusses the results of the test of hypothesis on the effects audit committee attributes on audit quality of quoted oil marketing companies in Nigeria. The variable for audit committee attributes include: audit committee independence (ACIND), audit committee size (ACSIZ), audit committee meetings (ACM), audit committee diversity (ACD) and audit quality (AUDQ). The data used to test for effects of audit committee attributes on audit quality of quoted oil marketing companies in Nigeria is attached as Appendix. The Descriptive statistics, data diagnostic tests results, correlation matrices and regression results are presented and discussed below

4.2.1 Descriptive Statistics I

The minimum, maximum, mean and standard deviation values of each of the variables used to test hypothesis I are discussed below.

Table 4.1: Descriptive Statistics

	AUDQ	ACIND	ACSIZ	ACM	ACD	AUDTYP	FSIZE
Mean	0.046095	0.137619	5.657143	3.857143	0.685714	0.828571	7.886680
Median	0.044368	0.166667	6.000000	4.000000	1.000000	1.000000	7.825385
Maximum	0.815882	0.333333	6.000000	6.000000	1.000000	1.000000	8.976039
Minimum	-0.498842	0.000000	4.000000	2.000000	0.000000	0.000000	7.114923
Std. Dev.	0.305779	0.095942	0.725293	1.033067	0.471008	0.382385	0.451427
Skewness	0.584986	-0.357099	-1.735737	-0.523652	-0.800095	-1.743626	0.887597
Kurtosis	3.558753	2.106082	4.208530	2.804111	1.640152	4.040230	3.602684
Observations	35	35	35	35	35	35	35

Source: Eviews 7.0 Output

The Table 4.1 indicates that audit quality, audit committee independence, audit committee number of meetings, audit firm size audit committee diversity 0.0460, 0.137, 3.857, 5.657 and 0.685 respectively. A comparison of the mean responses with the mean values for each of the variables indicates that the insurance industry presently operates at a audit quality of 46% audit committee independence of 13%, audit committee number of meetings of 300%, auditor size of 500% and audit gender diversity is at 68%

The table also shows that the mean of audit quality (ROA) is 0.073857, with standard deviation of 0.11119, the minimum and maximum values of 0.01000 and 0.79 respectively. It implies that the average value of ROA of listed insurance companies in Nigeria is 0.073857 to 0.79 and the deviation from both sides of the mean is 0.11119. This suggests that the data are widely dispersed from the mean because the standard deviation is more than the mean value.

The table also indicates a minimum value of audit independence (AIND) of 0.01, and maximum value of 1. The mean value 0.717 with standard deviation of 0.318672. It implies that the average value of audit independence of listed insurance companies in Nigeria is 0.717 to maximum value of 1.0 and the deviation from both sides of the mean is 0.318672. This implies that the data are not widely dispersed from the mean, because the standard deviation is less than the mean value.

The descriptive statistics indicates that the mean of audit committee number of meetings (ACNM) is 3.642857 with standard deviation of 0.978548, the minimum and maximum values of 2 and 7 respectively. It implies that the average value of ACNM of listed insurance companies in Nigeria is 3.642857 to 7, and the deviation

from both sides of the mean is 0.978548. This suggests that the data are not widely dispersed from the mean, because the standard deviation is less than the mean value.

The table also indicates that the mean of auditor size is 0.242857 with standard deviation of 0.431906, the minimum and maximum values of 0.000 and 1.00 respectively. It implies that the average value of auditor size (AUDS) of listed insurance companies in Nigeria is 0.242857 to 1.00, and the deviation from both sides of the mean is 0.431906. This suggests that the data are widely dispersed from the mean, because the standard deviation is more than the mean value.

The descriptive statistics indicates that the mean of audit fee (AUDF) is 6.906 with standard deviation of 0.332, the minimum and maximum values of 6.3 and 7.54 respectively. It implies that the average value of AUDF of listed insurance companies in Nigeria 6.906 to 7.54, and the deviation from both sides of the mean is 0.332. This suggests that the data are not widely dispersed from the mean, because the standard deviation is less than the mean value.

The probability value of Jarque-Bera test of ROA, AIND, ACNM, AUDS are less than 5%. It indicates that they are not normally distributed. While AUDF has a probability value of 0.396, it indicates that AUDF is normally distributed. However, the Guasian theorem (1929) and Shao (2003) suggest that normality of data does not in any way affect the inferential statistics estimate to the BLUE.

4.2.2 Normality Test

This study used the Jarque-Bera (JB) test to test whether the data used in this study are normally distributed. The JB Test is based on the following assumptions:

H_0 : Data is normally distributed

H₁: Data is not normally distributed

The decision criteria is that data is normally distributed when the probability of JB test statistics is greater than 0.05 at 5% level of significance. The results of the JB test are presented in table 4.1,2 below

Table 4.2.:Jarque-Bera Normality Test

	AUDQ	ACIND	ACSIZ	ACM	ACD	AUDTYP	FSIZE
Jarque-Bera	2.451516	1.909204	19.70452	1.655527	6.430950	19.31271	5.125373
Probability	0.293535	0.384965	0.053905	0.437026	0.401360	0.064001	0.077097
Observations	35	35	35	35	35	35	35

Source: Eviews 7.0 Output

The results in table 4.2 indicate that the data are normally distributed. This is because the probabilities of the Jarque-Bera statistics are consistently greater than 0.05.

4.2.3 Multicollinearity Test I

This test checks for correlation between independent variables. Multicollinearity occurs when multiple independent variables are highly correlated. In case of substantial multicollinearity, the regression coefficients may be “both biased and inconsistent” (Smith, 2011). Multicollinearity causes considerable changes in the regression coefficients when small adjustments are made to the data or the regression model. This distorts the reliability of the results. This study used the Variance Inflation Factor (VIF) and Tolerance Value to test for multicollinearity. Tobachnick and Fidell (1996), Neter, Kutner, Nachtsheim and Wasserman, (1996), Gujarati and Porter (2009) suggested that if VIF of a variable is more than 10, that variable is said to be highly collinear. Similarly, where the tolerance values are lesser than 1.00, there is no multicollinearity problem (Tobachnick & Fidell, 1996).

Table 4.3 Multicollinearity Test

Collinearity Statistics		
	Tolerance	VIF
ACIND	.152	6.575
ACSIZ	.338	2.959
ACM	.395	2.529
ACD	.520	1.922
AUDTYP	.398	2.510
FSIZE	.234	4.280

Table 4.3 above indicates that there is no multicollinearity problem with the predictors (independent variables) of the study. This is because the tolerance values are consistently less than 1 and the VIF values are consistently less than 10.

4.2.4 Heteroscedasticity Test I

This test checks whether the variability of error term is constant or not. An assumption of a linear regression model is that the variance of the error term is constant. This is called the assumption of homoscedasticity (Gujarati & Porter, 2009). This study used the White Heteroscedasticity Test. The null hypothesis here is that the residuals are homoscedastic and the decision rule is to reject null hypothesis if prob.chi-square is less than 0.05.

Table 4.4 Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.172413	Prob. F(6,28)	0.3489
Obs*R-squared	7.027554	Prob. Chi-Square(6)	0.3183
Scaled explained SS	4.226647	Prob. Chi-Square(6)	0.6460

The prob.chi-square of the White Test is 0.3183 as shown in table 4.4 above. This is higher than 0.05 hence we accept the null hypothesis that the residuals are homoscedastic. This indicates that the variance of the error term is constant, implying that there is no heteroscedasticity.

4.2.6 Correlation of Matrix I

The correlation values between dependent, independent and control variables as well as between independent variables are contained in table 4.5 below. The top values represent the Pearson correlation while the bottom values indicate the 2-tailed significance of the coefficients of the correlation.

Table 4.5 Correlation Matrix

		AUDQ	ACIND	ACSIZ	ACM	ACD	AUDTYP	FSIZE
AUDQ	Pearson Correlation	1						
	Sig. (2-tailed)							
ACIND	Pearson Correlation	.149*	1					
	Sig. (2-tailed)	.017						
ACSIZ	Pearson Correlation	-.138	-.518**	1				
	Sig. (2-tailed)	.428	.001					
ACM	Pearson Correlation	.113*	-.534**	.718**	1			
	Sig. (2-tailed)	.019	.001	.000				
ACD	Pearson Correlation	.027*	-.324	-.325	-.155	1		
	Sig. (2-tailed)	.016	.058	.057	.373			
AUDTYP	Pearson Correlation	-.217	.531**	-.218	-.287	-.145	1	
	Sig. (2-tailed)	.210	.001	.208	.094	.407		
FSIZE	Pearson Correlation	.195*	-.715**	.555**	.595**	.037	-.027	1
	Sig. (2-tailed)	.026	.000	.001	.000	.832	.879	
*. Correlation is significant at the 0.05 level (2-tailed).								
**. Correlation is significant at the 0.01 level (2-tailed)								

The correlation values are obtained using the Pearson correlation of 2-tailed significance. From table 4.5, audit quality of quoted oil marketing companies in Nigeria is positively correlated audit committee independence (14.9%). This signifies that companies with higher audit committee have more audit quality. Similarly, the correlation between audit quality and audit committee size (-13.8%) is negative and insignificant, the number of Audit Committee Meeting per annum (11.3%) Audit

committee diversity (2.7%), and firm size (21.7%), are all positively correlated with audit quality while audit type is negatively correlated with audit quality.

4.2.8 Regression Results

Considering the fact that this study used cross-sectional panel data, both fixed and random effect model were conducted. In deciding which of the two is appropriate for the study, a Hausman Specification Test was conducted and the results of the presented below.

Table 4.6 Hausman Specification Test

Correlated Random Effects - Hausman Test			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.562946	6	0.1997

Source: Eviews 7.0 Output

Table 4.6 shows that the p-value of the chi-square statistics is 0.1997 and this is more than 0.05 hence we accept the null hypothesis that the random effect is appropriate. In this sense, the random effect model is appropriate.

Table 4.7 Random Effect Model Result 1

Dependent Variable: AUDQ				
Method: Panel EGLS (Cross-section random effects)				
Sample: 2011 2015				
Periods included: 5				
Cross-sections included: 7				
Total panel (balanced) observations: 35				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.950265	1.804886	-1.634599	0.1133
ACIND	0.740112	1.241268	0.596255	0.0458
ACSIZ	-0.038529	0.112468	-0.342579	0.7345
ACM	0.130760	0.072424	1.805486	0.0318
ACD	0.188440	0.137863	1.366871	0.0183
AUDTYP	-0.035616	0.192427	-0.185085	0.8545
FSIZE	0.383200	0.212002	1.807527	0.0814
Effects Specification				
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			0.274673	1.0000
Weighted Statistics				
R-squared	0.274674	Mean dependent var	0.460955	
Adjusted R-squared	0.119247	S.D. dependent var	0.305779	
S.E. of regression	0.286969	Sum squared resid	2.305831	
F-statistic	3.767219	Durbin-Watson stat	2.920067	
Prob(F-statistic)	0.042418			
Unweighted Statistics				
R-squared	0.274674	Mean dependent var	0.046095	
Sum squared resid	2.305831	Durbin-Watson stat	2.920067	

Source: Eviews 7.0 Output

From table 4.7, the results show an R Squared (coefficient of multiple determination) of 0.2746 indicating that about 27% percent of the variability in AUDQ of quoted oil marketing companies in Nigeria is explained by audit committee attributes variables (audit committee size, audit committee number of meeting and audit committee independence) of the companies while the remaining 73% is explained by other variables not captured in this study. The F-statistics is 3. 767219 and the p-value is 0.042418. This is less than 0.05 hence the model is fit and appropriate.

Audit committee independence has a coefficient of 0.740112 and a p-value of 0.0458 which is less than 0.05 at 5% level of significance. It indicates that Audit committee independence has statistically significant positive effect on audit quality of quoted oil marketing companies in Nigeria.

The effect of audit committee size on audit quality of quoted oil marketing companies in Nigeria is negative and statistically insignificant. This is evident by the coefficient value of -0.038529 and a probability value of 0.7345 which is higher than 0.05. This implies that oil companies with higher audit committee size are likely to have lesser quality. This is however not statistically significant.

The effect of audit committee number of meetings on audit quality of quoted oil marketing companies in Nigeria is positive and statistically significant. Table 4.7 above indicates that the coefficient of audit committee of meeting 0.130760. The P-value of 0.0318 is less than 0.05 hence confirming the statistical significance of relationship. This points to the fact that audit committee number of meeting, improve audit quality.

The effect of Audit committee gender diversity on audit quality of quoted oil marketing companies in Nigeria is positive and statistically significant. Table 4.7 above indicates that the coefficient of audit committee of meeting 0.188440. The P-value of 0.0183 is less than 0.05 hence confirming the statistical significance of relationship. This points to the fact that audit committee diversity, improve audit quality.

Audit quality type on audit quality is negative but not statistically significant. Table 4.7 above indicates that the coefficient of audit type -0.035616 with the P-value of

0.8545 which is higher than 0.05 hence confirming the statistical insignificance of relationship.

Finally, the result also show that firm size (coefficient =0.383200) has a positive and statistically not significant (pvalue=0.0814) effect on audit quality.

4.3 Discussion of Findings

4.3.1 Audit Committee Attributes and Audit Quality

The results of this study indicate that audit committee attribute statistically influence audit quality of quoted oil marketing companies in Nigeria. Specifically, the study found that the relationship between components of audit committee attribute used in the study and audit quality is positive and statistically significant at 5% level of significance.

4.3.2 Audit Committee Independence and Audit Quality

The study found a positive relationship between audit committee independence on audit quality of sampled oil marketing companies in Nigeria. A positive relationship indicates that audit committee independence audit quality Improves audit quality of quoted oil marketing companies in Nigeria. It is consistent with Felo and Solieri (2009), Song and Windran (2000), Xie (2003), Abbot (2004).

4.3.3 Audit Committee Size and Audit Quality of Quoted Oil Companies

A negative relationship between audit committee sizes on audit quality implies that oil companies with higher committee size are likely to reduce audit quality. This finding is consistent with the findings Salloum, Azi, and Gebrayel (2014). However, the finding in this study is inconsistent with the findings in Vafeas (2005) which

documented evidence that small committees is not capable of fulfilling its duties efficiently.

4.3.4 Audit Committee Number of Meeting and Audit Quality

This study found a positive and statistically significant relationship between audit committee number of meeting and audit quality. A positive relationship indicates that firms with higher audit attributes are likely to have high audit quality. This finding is consistent with the findings in Abdullah Qaiser, Ashiru, Ananda and Thurai (2014), Peter (2007), Andra (2015) and Kantudu and Samaila (2015). It however contradicts the findings in Chaudry (2013), Chadanat (2015)

4.3.5 Audit Committee Diversity and Audit Quality

This study found a positive and statistically significant relationship between audit committee diversity and audit quality. A positive relationship indicates that firms with higher audit diversity composition are likely to have audit quality.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study looks at the effect of audit committee attribute on audit quality of quoted oil companies Nigeria. The study was prompted by the increasing need for improved corporate governance and quality information for decision making. The objectives of the study are examine the effect of audit committee attributes element, and audit quality elements The scope of the study covers oil companies quoted on the Nigeria Stock Exchange for the periods 2011-2015.

audit quality has been described as the joint probability that an existing material error is detected and reported by an auditor (DeAngelo, 1981), as this has a direct impact on the financial reporting, audit quality can further by defined as the ability of an auditor to provide an independent audit free from misstatement, error and fraud. Moreover, Watkins (2004) provides a comprehensive overview of the different ways in which audit quality has been defined in the prior literature. It is viewed as, the accuracy of the information reported on by auditors (Davidson & Neu, 1993); the probability that an auditor will not issue an unqualified report for statements containing material errors (Lee, 1999); and the market assessed probability that the financial statements contain material errors and that the auditor will discover and report them (DeAngelo, 1981).

There are a number of factors which can affect the quality of an audit; these could be (a) the culture within the audit firm, (b) skills and personal qualities of audit partners and staff, (c) the audit process, (d) usefulness of the audit reporting and (e) factors outside the control of the auditors. The Generally Accepted Accounting Principles

(GAAP) outlines important elements such as competence, independence and exercise of due professional care as measures for the quality of the external auditor's performance.

While some documented that the relation between audit committee attribute (audit committee size, audit committee number of meeting and audit committee independence) is positive and statistically significant, others found statistically significant negative relationship. These empirical findings indicated that the results on the relationship between audit committee attributes and audit quality are mixed and inconclusive. Similarly, studies have established the extent to which board characteristics influence audit quality. Again, the results are inconclusive as some studies found mixed results. Some studies established positive and statistically significant relationship between auditing size, audit committee numbers of meeting, audit committee independence audit committee diversity and audit quality, others found the relationship to be negative while others found the relationship not to be statistically significant.

The relationship between these variables has theoretical underpinnings in the agency theory, alignment effect hypothesis, entrenchment effect hypothesis and the efficient monitoring hypothesis. The agency theory has bearing on this study in the sense that it focuses on audit committee attribute and audit quality. It has been in literature argued that the degree of ownership concentration affects the nature of contracting, earnings properties hence quality of quality of audit. The alignment effect is based on the argument that the interests of controlling shareholders and other shareholders are well aligned. High ownership concentration can serve as a credible commitment that the

controlling shareholders are willing to build a reputation for not expropriating minority shareholders. As such they serve as monitoring mechanisms against managers' opportunistic behaviours that are likely to impair audit quality.

The study used cross-sectional balanced panel data trend collected for the period 2011-2015 from a sample of 13 quoted oil companies on the Nigeria stock exchange. Two stage regression analysis was used to analyse the data. The first regression was used to measure the accrual quality (using the modified Dechow-Dichev model, 2002) which serves as the proxy for audit quality. The second regression was between the audit quality index obtained from the first regression and the audit committee attributes components, additional two control variables were used and they include firm size and audit type. Normality tests, serial correlation tests and multicollinearity tests formed part of the robustness tests conducted. In testing the hypotheses, considering the nature of the data (panel data) both fixed effect and random effect tests were conducted and Hausman specification tests were conducted to choose which of these two is appropriate. The appropriate model is the fixed effect model. Correlation matrices were also used to test how these variables are correlated. The study used Eviews version 7.0 conducting the analyses.

The results reveal that three of the explanatory variables (audit committee size, audit committee number of meeting and audit committee independence are significant in explaining audit reporting quality of quoted oil marketing companies in Nigeria. Thus providing support for efficient monitoring hypothesis and the alignment effect hypothesis. Similarly, board meeting has a positive relationship with audit quality although not statistically significant.

5.2 Conclusions

The results of this study indicate that audit committee attribute statistically influence audit quality of quoted oil marketing companies in Nigeria. Specifically, the study found that the relationship between components of audit committee attribute used in the study and audit quality is positive and statistically significant at 5% level of significance,. Also found a positive relationship between audit committee independence on audit quality of sampled oil marketing companies in Nigeria. A positive relationship indicates that audit committee independence audit quality Improves audit quality of quoted oil marketing companies in Nigeria, however, relationship between audit committee sizes on audit quality implies that oil marketing companies with higher committee size are likely to reduce audit quality.

More so, study found a positive and statistically significant relationship between audit committee number of meeting and audit quality. A positive relationship indicates that firms with higher audit attributes are likely to have high audit quality.

This study found positive and statistically significant relationship between audit committee diversity and audit quality. A positive relationship indicates that firms with higher audit diversity composition are likely to have audit quality.

5.3 Recommendations

Based on the findings, this study recommends the following:

Audit committee attributes on audit quality of quoted oil marketing companies should be sustained and encouraged. This is based on the finding that committee attributes has significant positive effect on audit quality of quoted oil marketing companies in

Nigeria. The A positive relationship between audit committee sizes on audit quality implies that oil companies with higher committee size are likely to have improved audit quality

Similarly, significant relationship between audit committee number of meeting and audit quality. A positive relationship indicates that firms with higher audit attributes are likely to have high audit quality in Nigeria.

5.4 Suggestions for Further Study

This study assesses the effect of audit committee attributes on audit quality of quoted oil marketing companies in Nigeria. The study used only four (audit committee number of meeting, audit committee size, audit committee independence and audit committee diversity. Further study can be carried out on the effect of female directors on earnings performance of quoted oil marketing companies in Nigeria

The study concentrated on audit size, independence and meeting and audit committee diversity. Since this study only focused on oil and gas companies in Nigeria, other interested researcher can focus on the other sector of the economy. Further studies can also look at audit committee financial expertise, attendance of meetings by audit committee members (as against frequency of Audit committee meeting). Other governance mechanisms like the audit committee characteristics can be explored.

Also, in term of period, this study covered only five 5 years period. Interested researcher can expand the scope of the study

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Appendix

FYEA R	COMPANIES	CRO SS	AUD Q	ACS IZ	ACI ND	AC M	AC D	FSIZ E	AUDT YP
2011	Conoil	1	-0.469	6	0.33	4	0	7.79	1
2012	Conoil	1	0.393	6	0.17	4	0	7.92	1
2013	Conoil	1	-0.442	6	0.17	4	0	7.92	1
2014	Conoil	1	-0.033	6	0.17	4	0	7.94	1
2015	Conoil	1	0.022	6	0.17	4	0	7.94	0
2011	Eternaoil	2	-0.371	4	0.25	2	1	7.17	1
2012	Eternaoil	2	0.816	4	0.25	2	1	7.52	1
2013	Eternaoil	2	-0.122	4	0.25	2	1	7.26	1
2014	Eternaoil	2	0.175	4	0.25	2	1	7.11	1
2015	Eternaoil	2	0.266	4	0.25	2	1	7.46	1
2011	Forte Oil (Ap)	3	-0.241	6	0.00	4	1	7.66	0
2012	Forte Oil (Ap)	3	-0.204	6	0.00	4	1	7.63	0
2013	Forte Oil (Ap)	3	0.116	6	0.00	4	1	8.02	0
2014	Forte Oil (Ap)	3	0.219	6	0.00	5	1	8.14	0
2015	Forte Oil (Ap)	3	-0.499	6	0.00	6	1	8.09	0
2011	Mobil Nig	4	0.085	6	0.17	2	1	7.43	1
2012	Mobil Nig	4	-0.078	6	0.17	4	1	7.53	1
2013	Mobil Nig	4	0.240	6	0.17	3	1	7.61	1
2014	Mobil Nig	4	0.196	5	0.20	4	1	7.69	1
2015	Mobil Nig	4	-0.128	5	0.20	4	1	7.73	1
2011	Mrs(Texaco Chevron)	5	0.055	6	0.17	4	0	7.86	1
2012	Mrs(Texaco Chevron)	5	-0.136	6	0.17	5	0	7.75	1
2013	Mrs(Texaco Chevron)	5	-0.162	6	0.17	5	0	7.82	1
2014	Mrs(Texaco Chevron)	5	0.035	6	0.17	5	1	7.76	1
2015	Mrs(Texaco Chevron)	5	-0.026	6	0.17	5	1	7.83	1
2011	Oando	6	0.074	6	0.00	4	1	8.61	1
2012	Oando	6	0.046	6	0.00	4	1	8.71	1
2013	Oando	6	0.729	6	0.00	4	1	8.77	1
2014	Oando	6	0.226	6	0.00	5	1	8.95	1
2015	Oando	6	0.044	6	0.00	5	1	8.98	1
2011	Total Nigeria	7	-0.161	6	0.17	4	0	7.77	1
2012	Total Nigeria	7	0.223	6	0.17	4	0	7.88	1
2013	Total Nigeria	7	-0.109	6	0.17	3	0	7.90	1
2014	Total Nigeria	7	0.141	6	0.17	4	1	7.98	1
2015	Total Nigeria	7	0.691	6	0.17	4	1	7.92	1