



Audit Committee Characteristics and Segment Disclosures of Deposit Money Banks in Nigeria

Ignatius A. Njokuji¹, Gospel J. Chukwu^{2*}

¹Department of Accounting, Ignatius Ajuru University of Education, Rumuolumeni, Port Harcourt, Nigeria

²Department of Accountancy, Ken SaroWiwa Polytechnic, Bori, Rivers State, Nigeria

***Corresponding Authors:** Gospel J. Chukwu, Department of Accountancy, Ken SaroWiwa Polytechnic, Bori, Rivers State, Nigeria

Abstract: The purpose of the study was to investigate the effect of audit committee characteristics on segment disclosures of banks in Nigeria. The study used secondary data obtained from the annual reports of deposit money banks listed on the Nigerian Stock Exchange for the period 2018 to 2020. Four null hypotheses were formulated and analyzed using multivariate analysis. The results showed that meeting frequency has a significant negative effect on segment disclosures while audit committee gender diversity has a positive but insignificant effect on segment disclosures. The results further revealed that audit committee independence (and audit committee financial expertise) have a positive (and negative) but insignificant effect on segment disclosures, respectively. The study recommends banks to monitor closely board meetings and conduct due diligence on non-executive independent directors to ascertain their independence. The study recommends that the banks should increase the number of female directors and number of financial experts on the audit committees. Future study should consider using different proxies for segment disclosures as well as longer study period.

Keywords: Segment disclosures, audit committee characteristics, deposit money banks.

1. INTRODUCTION

As a result of recapitalization exercise and other banking reforms such as the approval of universal banking, Nigerian deposit money banks have become bigger and more complex. Leveraging on globalization, Nigerian DMBs now have branches across the country and even outside Nigeria. They have equally diversified their operations. The consequence is that Nigerian DMBs now operate in complex and different markets with each market having unique economic dynamics necessitating adoption of different business models and corporate strategies (Ebirien & Israel, 2019). Reporting aggregated data in the circumstance will not be helpful to present and potential users of financial statements in making informed decisions (Hope *et al.*, 2009). Accounting standard setters seem to agree with this line of reasoning and have issued standards on segment reporting. Such standards include the first accounting standard concerning segment, SFAS 14 (*Financial Reporting for Segments of a Business Enterprise*) published by the Financial Accounting Standards Board (FASB) of United States in 1976, SAS 24 (*On Segment Reporting*) issued by the defunct Nigerian Accounting Standards Board, and IFRS 8, Operating Segments. However, a strong argument against segment reporting is that segment reporting would result in disclosing proprietary information which competitors could use. Prior studies show that managers have the proclivity of withholding information (Botosan & Stanford, 2005; Kothari *et al.*, 2009) because of conflict of interest with their principals (Jensen & Meckling, 1976). Following accounting scandals, regulators require firms to establish audit committee (AC) to oversee financial reporting. There is doubt on the ability of AC to deliver on its mandate (Bédard & Gendron, 2010; Krishnan, 2005). However, prior studies show that the effectiveness of the AC depends on its characteristics. The objective of this study therefore is to investigate the relationship of audit committee characteristics and segment disclosures in the Nigerian banking industry.

The choice of this study stems from the review of empirical studies which show scanty studies involving Nigerian DMBs and the fact that Nigerian DMBs are now more complex and diversified than before (Ebirien & Israel, 2019).

2. LITERATURE REVIEW

Conceptual Review

Segment Disclosures

Accounting standards especially IFRS 8 (*Operating Segments*) require firms to report financial and descriptive information about its operating segments in annual reports. The disclosures should be according to the internal reporting system and should cover information about products and services, geographical areas, major customers and important factors used to identify an entity's reportable segments. Segment disclosures would assist users of financial statements to have better understanding of the entity's past performance, better assessment of the entity's risks and returns; and make more informed judgments about the entity as a whole.

Audit Committee (AC)

By the provision of the Companies and Allied Matters Act, 2004, every limited liability company should establish an AC with membership not exceeding 6 and comprising equal number of representatives of shareholders and directors. The AC oversees the financial reporting of the firm and report to the members of the firm at the annual general meeting. In particular, the committee is to:

- Ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices.
- Review the scope and planning of audit requirements.
- Review the findings of management matters in conjunction with external auditors and departmental responses thereon.
- Keep under review the effectiveness of the company's system of accounting and internal control.
- Make recommendations to the board in regard to the appointment, removal and remuneration of the external auditors of the company.
- Authorize the internal auditors to carry out investigations into any activities of interest or concern to the committee.

3. THEORETICAL FRAMEWORK

The theoretical framework of this study is the agency theory. Agency theory is founded on agency relationship. Jensen and Meckling (1976 p. 333) state that agency relationship is a "contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent". The central proposition of the theory is the existence of potential goal conflict between the owner and the managers. The goal conflict may be seen when a manager pursues his/her goal at the expense of the owner such as shirking responsibility (Watts, & Zimmerman, 1986) and hoarding of vital information (Kothari *et al.* 2009). This introduces agency costs which theorists contend that corporate governance mechanisms such the AC can mitigate.

4. EMPIRICAL REVIEW

Audit Committee Meeting Frequency (ACMF)

The literature argues that the frequency of meetings of AC is an important determinant of the effectiveness of the audit committee (Krishnan, 2005). AC that meet frequently have more time to focus on disclosure issues. Empirical studies present mixed evidence on whether and how ACMF influences corporate disclosures. Allegrini and Greco (2013) studied the role of corporate boards and audit committees in influencing voluntary disclosure and among Italian listed firms. The result showed that ACMF has a positive and significant association with voluntary disclosure level. Li *et al.* (2012) documented a positive and significant association between ACMF and intellectual capital

disclosures. The study of MohdNaimi *et al.* (2010) provided empirical evidence that fACMF was likely to influence timely production of audit report, but Chukwu and Nwabochi (2019) s documenteda significant negative relationship btween ACMF and timeliness of financial reports. Ebirien *et al.* (2019) found a positive but insignificant relationship between ACMF and corporate governance disclosures amongst Nigerian listed deposit money banks. MnifSellami and Borgi Fendri (2017) used 120 non-financial firms listed on the Johannesburg Stock Exchange (JSE) for the period 2012 to 2014 to investigate the effect of AC characteristics on compliance with IFRS for related party disclosures. The results showed a positive but insignificant association between ACMF and compliance with IFRS related party disclosures.

Audit Committee Diversity

Based on resource dependency theory it is argued that female membership of AC would broad spectrum of resources necessary for the attainment of the mandate of the committee. Gender studies show that women have different managerial styles and skills that should be harnessed by the AC (Powell, & Ansic, 1997, Schubert, 2006). Adams and Ferreira (2009) and (Kaplan *et al.* 2009) showed that women were effective monitors and managers. Gul *et al.*(2011)found evidence suggesting that the gender diversity facilitates private information collection even in firms. Chukwu et al. (2020) found a significant (positive) relationship between female representation in audit committee and firm valuation in Nigeria.

Audit Committee Independence (ACI)

Another important feature of audit committee is audit committee independence (ACI). The governance code for public firms in Nigeria issued in 2011 requires firms to ensure that executive directors are not members of the statutory audit committee. The Code for Bank issued by the Central Bank of Nigeria in 2014 also made similar provision and even required DBMs to appoint non-executive independent directors (NEIDs). Fama and Jensen (1983) argue that such directors are likely to effectively monitor management so as to provide adequate and credible disclosures, as they more likely to be free from management influence(Mangena & Pike, 2005).The Companies and Allied Matters Act 2004 provides for shareholders as members of the AC in order to strengthen the independence of the committee. The literature uses the proportion of NEIDs on the AC as proxy for ACI. The evidence in the prior studies is inconclusive. Mnif Sellami and Borgi Fendri (2017) found that ACI(positively and significantly) influenced the level of compliance with IFRS related party disclosures in South African samples. Li *et al.* (2012) documented similar result in the case of intellectual disclosures using UK data. However, Ebirien *et al.* (2019) found a negative but insignificant association in respect of corporate governance disclosures by Nigerian listed DMBs.Chukwu and Nwabochi (2019) similarly found a negative and insignificant relationship between ACI and financial reporting timeliness in Nigerian insurance firms.

Audit Committee Financial Expertise (ACFE)

The primary responsibility of the AC is to oversee the financial reporting process. This requires members with financial expertise to understand complex accounting issues. This seems to inform the provision in the governance code for public firms in Nigeria which requires members of the AC to possess financial literacy with at least one member possessing knowledge of accounting or financial management. Mangena and Pike (2005) document that the extent of interim disclosure is positively associated with ACFE.Akhtaruddin and Haron (2010) established a positive and significant association between ACFE and voluntary disclosure in Malaysia. Using data over the period 2008–2012 from a sample of Shanghai Stock Exchange) listed firms. Liu (2015) studied the effect of corporate governance on forward looking disclosure and provided evidence of a significant positive relationship between financial expertise on the AC and levels of forward looking disclosure. Evidence from Ebirien et al. (2019) however, revealed a negative and insignificant relationship between ACFE and level corporate governance disclosure. Li *et al.* (2012) found a negative and significant relationship between ACFE and intellectual capital disclosure.

Based on the literature review, the study proposes the following null hypotheses:

Ho1: There is no significant relationship between AC meeting frequency and segment disclosures.

Ho2. There is no significant relationship between AC gender diversity and segment disclosures.

Ho3: There is no significant relationship between AC independence and segment disclosures.

Ho4: There is no significant relationship between AC financial literacy and segment disclosures.

The a priori expectation from the literature is that AC meeting frequency, AC gender diversity, AC independence, and AC financial expertise will be positively related to segment disclosures.

5. METHODOLOGY

The study used a correlational research design. The population is the thirteen deposit money banks listed on the first-tier market of the Nigerian Stock Exchange as at 31st December, 2020. These are Access Bank, Ecobank Group, First Bank, Fidelity Bank, First City Monument Bank, GT Bank, Stanbic IBTC Bank, Sterling Bank, Union Bank, UBA, Unity Bank, Wema Bank, and Zenith Bank. To select the sample, the study excluded two deposit money banks, viz Ecobank Group and Unity Bank Plc, This is because the reporting currency of Ecobank Group is not Naira while Unity Bank Plc did not have annual report in 2020. Consequently, the sample consists of eleven deposit money banks. The study used secondary data extracted from the annual reports of the sampled deposit money banks.

To explore the relationship between AC characteristics and segment disclosure, the study used the following econometric model:

$$SGD_{i,t} = \beta_0 + \beta_1ACMF_{i,t} + \beta_2AGDV_{i,t} + \beta_3ACI_{i,t} + \beta_4ACFE_{i,t} + \beta_5FMSZ_{i,t} + \varepsilon_{i,t}$$

Where for firm i at year t:

Variable	Definition	Measurement
Sgd	Segment disclosures	Number of pages of annual report devoted to disclosing segment information
ACMF	Audit committee meeting frequency	No of committee meetings per annum
AGDV	Audit committee gender diversity	No of women on the audit committee
ACI	Audit committee independence	Proportion of NEIDs on the audit committee
ACFE	Audit committee financial expertise	No of members with professional membership of legally established professional accounting bodies in Nigeria.
Fsze	Firm size	Natural log of total assets
ε	Error term	
β_0	Intercept	
β_1, \dots, β_5	Regression coefficients	

The dependent variable is segment disclosure. The independent variables are audit committee size, frequency of audit committee meeting, audit committee gender diversity, audit committee independence, audit committee financial expertise, and firm size. The study measured segment disclosure following previous studies (e.g., Wallace & Naser, 1995). Consistent with prior studies (e.g., Ebirien *et al.*, 2019; Mnif Sellami & Borgi Fendri, 2017), the study selected firm size as a control variable. Audit committees need to be adequately resourced in order to be effective. Large firms relative to small firms have enough resources to provide the audit committees. They also face greater political scrutiny (Watts & Zimmerman, 1986) and to avoid political intervention, they have to support the audit committee for enhanced disclosures of segment information. The study of Talha *et al.* (2009) revealed that firm size was positively and significantly associated with segment disclosures.

6. EMPIRICAL RESULTS

Table 1 presents the descriptive analysis of the variables used in the study. Table 1 shows that the study has 33 firm observations. On average the sampled banks disclosed segment information on 4 pages of their annual reports. The number of pages containing segment information ranged from 1 and 11. On average, the banks held approximately 4 meetings per year. The least number of meetings held per annum was 2 and the maximum stood at 7. There was a maximum of 2 NEIDs on the audit committees. Some audit committees have no NEID, female members and financial experts as defined in this study.

Table1. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Sgd	33	4.060606	2.760654	1	11
ACMF	33	4.090909	1.128152	2	7
AGDV	33	1.272727	.9107939	0	3
ACI	33	.9393939	.7474705	0	2
ACFEt	33	1.242424	.7917663	0	3
Fmsz	33	21.74566	0.7856761	20.00747	22.88426

Source: Author's computation

7. CORRELATION ANALYSIS

Table 2 presents the correlation of risk management disclosure level and the independent variables.

Table2. Correlation Matrix

	sgd	ACMF	AGDV	ACI	ACFE	fmsz
sgd	1.0000					
ACMF	-0.4534*	1.0000				
AGDV	0.4779*	-0.1769	1.0000			
ACI	0.2139	-0.0303	0.0709	1.0000		
ACFE	-0.3644*	0.0795	-0.7446*	0.0784	1.0000	
fmsz	0.4270*	-0.3293	0.1663	0.5810*	0.1126	1.0000

Source: Author's computation

* denotes 5% significance

The correlation matrix shows a negative and significant correlation between segment disclosure and AC meeting frequency. Table 2 indicates a positive and significant correlation between segment disclosure and the AC female membership. The correlation between AC independence and segment disclosure is positive and insignificant. AC financial expertise reveals a negative correlation with segment disclosure. The correlation is significant at the 5% level. The values of the correlation coefficients are low indicating absence of multicollinearity. This is further corroborated by the variance inflation factor (VIF) and the VIF Tolerance as shown in Table 3. A VIF of below 10% indicates absence of serious multicollinearity (Hair *et al.*, 2010).

8. RESULTS AND DISCUSSION

The multiple regression results are presented in Table 3.

Table3. Regression Results Dependent variable: SGD

Variable	Coef	Std. Err.	T	p-value	VIF	1/VIF
ACMF	-0.7324352	0.3263946	-2.24	0.033	1.20	0.836298
AGDV	0.62652	0.7075685	0.89	0.384	2.68	0.372820
ACI	0.1235797	0.5828246	0.21	0.834	1.58	0.632070
ACFE	-0.7776311	0.5939188	-1.31	0.201	2.64	0.379379
fmsz	1.053165	.5996907	1.76	0.090	1.96	0.509680
Cons	-15.79216	12.62218	-1.25	0.222		
Model summary						
No of obs	33					
F(5, 27)	4.43					
Prob> F	0.0045					
R ²	0.4509					

The F statistics with a p-value of 0.0045 in Table 3 suggests that the model is highly significant in explaining the variations in the segment disclosures. Indeed the model R² (0.4509) indicates that independent variables explain almost 45 percent of the variation in the segment disclosures. The coefficient on AC meeting frequency is negative and significant ($\beta_1 = -0.7324352$, p-value = 0.033). Therefore **Hypothesis 1** which states that there is no significant relationship between frequency of AC meeting numbers and segment disclosure is rejected.

The coefficient on AC gender diversity is positive and insignificant ($\beta_2 = 0.62652$, p-value = 0.384). Based on this result, **Hypothesis 2** which states that there is no significant relationship between audit committee gender diversity and segment disclosures is sustained.

The coefficient on audit committee independence is positive and insignificant ($\beta_3 = 0.1235797$, p-value = 0.834). Consequently, **Hypothesis 3** which states that there is no significant relationship between AC independence and segment disclosures is supported.

The coefficient on AC financial expertise is positive and insignificant ($\beta_4 = -0.7776311$, p-value = 0.201). Consequently, **Hypothesis 4** which states that there is no significant relationship between AC financial literacy and segment disclosures is supported.

9. DISCUSSION OF FINDINGS

The negative coefficient on ACMF suggests an inverse relationship between the AC meeting frequency of audit committee meetings and segment disclosures. This implies that as the number of AC meetings increases by 1, the volume of segment disclosures decrease by 0.73 pages, all else held constant. This result is in conflict with Allegrini and Greco (2013) and Li *et al.* (2012) who showed that audit committee meeting frequency is positive and significantly influenced s voluntary disclosures. The result could be that the meetings focused on issues requiring mandatory disclosures. The coefficient on AC gender diversity is positive suggesting that as AC increases by one more female member, segment disclosures in the annual reports increase by 0.623pages. This is consistent with the empirical evidence of Gul *et al.* (2011), Chukwu *et al.* (2020) The positive coefficient on audit committee independence implies that independent directors on the audit committee have a positive effect on segment disclosures. An addition of one NEID on the audit committee is associated with an increase of 0.12 pages in segment disclosures. The finding is consistent with prior empirical evidence (e.g. Ebirien *et al.*, 2019; Li *et al.*, 2012. Mangena & Pike, 2005). The negative coefficient on AC financial expertise suggests that as the number of financial expert on audit committee increases by one, segment disclosure decreases by 0.2pages in the annual reports. The relationship is insignificant and in consonance with Akhtaruddin and Haron (2010, Liu, 2015), and Mangena and Pike (2005). Consistent with prior studies (e.g. Elshandidy *et al.*, 2013), the control variable, firm size, revealed a positive coefficient ($\beta_4 = 1.053165$) which is significant at 10% level. The implication is that as bank size increases by one standard deviation, segment disclosure increases by 0.83pages (1.053165 X 0.7856761).

10. CONCLUSIONS AND RECOMMENDATIONS

The study sought to investigate the effect of audit committee characteristics on segment disclosures of banks in Nigeria. It employed secondary data obtained from the annual reports of deposit money banks listed on the Nigerian Stock Exchange for the period 2018 to 2020. The study formulated four null hypotheses and conducted a multivariate analysis. The results show that meeting frequency has a significant negative effect on segment disclosures while audit committee gender diversity has a positive but insignificant effect on segment disclosures. The results further reveal that audit committee independence and audit committee financial expertise respectively have a positive and insignificant effect on segment disclosures. The study recommends banks to monitor closely board meetings and conduct due diligence on NEIDs to ascertain their independence. The study recommends that the banks should increase the number of female directors and number of financial experts on the audit committees. Future study should consider using with different proxies for segment disclosures as well as longer study period.

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