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Audit Committee Effectiveness of Financial Reporting Quality in Listed companies in Nigeria Stock Exchange

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Abstract
The paper examines the impact of audit committee on financial reporting quality in listed firms in Nigeria Stock Exchange. The paper uses the conceptual approach on archival data in the form of annual report of listed companies' annual reports to examine the relationship between audit committee and financial reporting quality. It also examine the role of audit committee in the relationship with financial reporting quality best code of practices of corporate governance and the relationship between independence, size, diligence, and expertise of audit committee.
Keywords: Audit Committee Corporate Governance, Financial Reporting Quality, Audit Quality.

Introduction

The audit committee has been defined by Robinson and Owen- Jackson (2009) as selected members of companies who take an active role in overseeing the companies accounting and financial reporting quality policies and practices. In order to promote good corporate governance and enhance the integrity of financial reporting, audit committee as an integral part of corporate governance structure and one of the mandatory committees of the board of directors is established to provide support to the board by offering objective advice on issues concerning risk, control and governance of the organization. Traditionally, the primary role of audit committee has been to monitor the integrity of the financial statements produced by management. In recent times, this major role has been expanded beyond the annual financial statements to encompass the quarterly financial reports. Owing to this, audit committees are becoming more involved in the oversight of corporate reporting matters as contrasted with financial reporting. According to Owolabi and Dada (2011), considering the quantum of corporate collapses and failure, it is imperative that audit committee is taken more seriously in every corporate organization.

The audit committee serves as a liaison between the external auditor and the board of directors, and facilitates the monitoring process by reducing information asymmetry between the external auditor and the board. In addition, Blue Ribbon Committee (1999) noted that the audit committee is the most important governance mechanism with respect to audit firm appointments because it is responsible for hiring the external auditor and for overseeing audit quality. Therefore, a properly functioning audit committee is critical in ensuring the independence of auditors and high quality financial reporting. Improving the quality of financial

statements has been widely proposed as one of the major benefits of companies establishing audit committees (Blue Ribbon Committee, 1999).
Following the agitations to review the structures of corporate governance in Nigeria and in view of the importance attached to the institution of effective corporate governance, the Federal Government of Nigeria, through regulatory agencies have come up with institutional arrangements to protect investors in Nigeria (Kajola, 2008). The first attempt to provide for audit committee effectiveness was contained in Company and Allied Matters Act (CAMA) CAP C20, Law of the Federal Republic of Nigeria (LFN) 2004 Sec. 359. The second attempt was contained in the Code of Corporate Governance best practices issued by the Securities and Exchange Commission (SEC) in November, 2011. These two provisions failed to address the issue of audit committees in terms of financial expertise and hence failed to ensure quality financial reporting quality. The failure resulted in incessant reports that bordered on financial misappropriations which led to the removal of CEOs in some Nigerian banks (Ojeka, Kanu and Owolabi, 2013).

Financial reports quality increases with the presence of accounting experts in audit committee, which highlights the important role that expertise plays in board monitoring and governance. In addition, we further decompose audit committee with accounting experts into several other components: those with accounting experts only; those with accounting and finance experts only; those with accounting and supervisory experts only; and those with all the three expertise. The findings reveal that financial reporting quality is not affected if audit committees are made up of only accounting experts. Instead, financial reporting quality is only improved when the audit committees also consist of members that possess other skill-set in terms of finance or supervisory expertise. Therefore, our empirical results lend further credence to the call for diversity of expertise in audit committees and extend that of Dhaliwal et al. (2010) for the US firms, who find that financial reporting quality is positively associated with the presence of accounting and finance (but not supervisory) experts in audit committee. We interpret our findings as suggesting that supervisory expertise gained through experience in supervising corporate operations is a good complement to the domain-specific expertise in accounting and finance. This is supportive of Goh (2009) who finds that the proportion of audit committee members with supervisory expertise, rather than accounting expertise, is positively associated with firms’ timeliness in the remediation of internal control weaknesses in the forums.

Literature Review

The audit committee plays a vital role in the financial monitoring of a firm (Kevin, 2009). It also acts in a manner that will provide oversight roles over accounting policies and judgments, as well as the quality of the overall financial statements (Blue Ribbon Committee (1999); Security and Exchange Commission Code (2011). The SEC (2011) maintained that, to carry out the assigned tasks of monitoring financial reporting diligently, it will require significant accounting sophistication. That is, it would involve assessing the reasonableness of complex financial matters such as the company's accounting reserves, and management's handling of proposed audit adjustments suggested by the external auditors (DeFond, Hann, & Hu, 2005). The audit committee is one mechanism available to the board of directors to limit conflicts of interest between managers and stockholders (Menon & William, 1994). The wide adoption of the formation of audit committees around the world suggests the importance of an audit committee as a governance mechanism (Saidin, 2007). According to Cadbury Report (1992), audit committees would be important governance mechanisms that would protect the interests of the shareholders and ensure transparent reporting and improve audit quality.

According to Okaro (2001), an effective audit committee provides the following advantages: Strengthen the external auditor's independence; added credibility of audited financial statements; supplementary assurance that corporate policies are in the best interest of shareholders and society at large; enhancement of the internal auditor position; improving performance of senior management by creating consciousness in them; advance of conflicts arising between management and auditors; and better communication between the director and external auditors and management. Bhattacharyya (2012) argues that effective audit committee role in protecting the audit independence to enable auditors to form independent judgments without management pressure. Also, Dechow (1996) provides that firms without audit committees are more likely to have financial statements and earnings overstatements (Defond and Jiambalvo, 1991).

In addition to this, Akinsulire (2010) provides that an audit committee should be established to ascertain that processes and procedures for monitoring those processes are in place. Emphatically, the committee is presently charged to seek assurances from the CEO and CFO, as part of the CEO/CFO certification process, that they have put in place effective disclosure controls and procedures to ensure that all reports in the corporate reporting universe are prepared properly and filed with the appropriate authorities in accordance with applicable requirements.

Many scholars have examined the association between audit committee, audit quality and firms' effectiveness, for example, Merawati (2015) conducted his study on 11 insurance and reinsurance firms listed in the Indonesian Stock Exchange in 2012, the findings showed that the Audit Committee, the Internal Audit, the External Audit and the corporate financial reporting quality soundness, have effects on the firm's effectiveness. Vuko, Maretić, and Čular (2015) examined the role and effectiveness of internal tool (audit committee) of corporate governance on credit institutions performance in Croatia. sample consisted of 78 credit institutions listed in Zagreb Stock Exchange, from 2007 to 2012 has been collected and efficiency index of audit committee (EIAC) has been created. They found that audit committees of credit organizations have medium efficiency, and there is an important difference in audit committee effectiveness in observed period, furthermore there is a significant change between level of audit committee effectiveness and audit company type. While there is no positive association between audit committee efficiency and financial reporting quality credit organization performance.

The formation of audit committees is anticipated on agency theory which suggests that a companies' demand for an audit committee is related with the magnitude of its agency problem. Agency problem arises as an outcome of separation between ownership and control.

Habitually shareholders are circulated in Nigeria and cannot hold the professional managers accountable (Samuel, 2012). Islam, Islam, & Islam, (2010) noted that the problem usually inherent in the agency association is that the agent and the principal may be at disagreement with each other for the following reasons among others:
a) The agent is generally expected to be a risk- averter while the principal is expected to be a risk –seeker or risk- averter.
b) The agent might have a shorter duration with the management than the principal
c) The agent's earnings are permanent (in the absence of incentive payments) while the principal is the residual claimant.
d) The principal does not directly take part in the day to day organization decision-making and control
e) There is information asymmetry amongst the agent and the principal as the principal is ignorant of many details of the agent's action (Islam, Islam, & Islam, 2010).
The audit committee is usually a board committee with the main role of overseeing financial reporting (Zheng, 2008).Among the elements of corporate governance, audit committee is the major element that supports the health of financial reporting. (Salehi, Zanjirdar, & Zarei, 2012). Since managers usually do not have to interact regularly with shareholders, a distance in terms of trust might exist due to this communication gap. Audit committee can act as a link in such gaps especially in terms of the integrity of the financial statements of an institution. An effective audit committee will therefore help in aligning the interests of organization with that of shareholders (Chan & Li, 2008). Thus academic literature proposes that a qualitative audit committee has important positive impact in reducing agency conflicts and protecting shareholders' interest (Karbhari & Mohiuddin, 2010). It is suggested that mere formation of audit committee on its own does not essentially translate into an effective or qualitative monitoring body. The activities and efficiency of such a committee need to be systematically examined (Al-lehaidan, 2006).

Regulatory Framework for Accounting and Financial Reporting in Nigeria

The responsibility for regulating accounting and financial reporting quality in Nigeria is shared by three main statutory bodies. The Corporate Affairs Commission (CAC), which is responsible for the supervision of company formation, registration, management, incorporation and winding up. The Securities and Exchange Commission (SEC) for regulating the capital market, and the Nigerian Stock Exchange (NSE), for ensuring compliance with the listing rules and reporting requirement for companies listed on the exchange in addition to providing a trading platform for listed equity and debt. The Nigerian Accounting Standard Board (NASB) is responsible for the introduction, review and removal of local accounting standard (Okike, 2007; ROSC, 2011).
General legal requirements for the preparation of financial statements by limited companies in Nigeria are contained in the provisions of the Companies and Allied Matters Act of 2004 (CAMA, 1990) section 334 subsections 2(a)-(i). This is in addition to specific legal requirements such as the Banks and Other Financial Institutions Act (1991) for firms operating in the banking sector,

the Nigerian Insurance Act (2003) for firms operating the insurance sub sector among others (Nmehielle and Nwauche, 2004).

Mandatory Disclosure Requirement

CAMA (2004) section 334 subsection 2 specify the mandatory disclosure required in the annual report to include:
- A statement of accounting policy
- The balance sheet as at the last day of the year
- A profit and loss account or, in the case of a company not trading for profit, an income and expenditure account for the year;
- Notes on the accounts
- The auditor's reports
- A statement of the source and application of fund
- A value added statement for the year
- A five year financial summary and
- In the case of a holding company, the group financial statement.

Other specific disclosures that are statutorily required in the annual reports include the following:

Accounting Standards

Section 335(1) of CAMA Act stipulates that accounts should be prepared in accordance with the accounting regulatory standards principles laid down in the statement of accounting standards by the Nigerian Accounting Standard Board. In Nigeria account are prepared with both the local accounting standards and the international standards i.e. IAS/IFRS. In Nigeria there are some standards used in preparation of account and some of the local standards are not fully covered by the international standards.

Directors' Report

Section 342 of the CAMA (2004) stipulates that the directors should present a report of their activities to the shareholders. The annual report should states the list of the directors. There are no perquisites that the list should provide whether the directors are independent or not. The Act also provides for a maximum of 20 and minimum of 5 directors on the board and t provide no guidance on the structure of the board,; however, information on members' attendance at meetings should be promptly available for inspection in the general annual meeting by shareholders.

Audit Committee

Section 359(3)-(6) a-f of CAMA, stipulates that every limited company listed on the NSE to constitute an audit committee with membership equally shared between management and the shareholders. The law requires from the board a maximum membership of 6 and maximum of 1 executive director. The structure of independence, the characteristics of audit committee and remuneration or nomination committee are not specific of the mandatory disclosure ethics.. The Act also stipulates the expected duties of the audit committees.

Thus, the mandatory level of disclosure of most listed companies in Nigeria comply the minimum level with strict monitoring and compliance of the Nigeria Stock Exchange in Nigeria as developing country.

The need for audit committee and the auditors to maintain the independent relationship that will enhance the credibility of financial reporting quality for the advantage of the key stakeholders. The companies rely on the information and the transparency of the auditors and the role of audit committee in their managerial responsibilities (Cohen et al., 2004).

Independence of Audit Committee

The main purpose of SOX is to ensure auditor independence. The papers examined the relationship between the quality of the Audit Committee, management and the audit committee's decision to change auditors allowed provided tax services. The paper finds that firms with more independent boards committees more financial accounting audit, more experience is the property of the actions of leaders and institutions that separate the positions of chairman and CEO, and a higher tax rate ratios (Albring, Robinson, & Robinson, 2014).

Diligence of Audit Committee

It has been suggested that the criteria of expertise and independence will not necessarily lead to effectiveness unless the audit committee is diligent or active. According to the Tread way Commission (1987) an active audit committee enhances the committee’s role to execute its duties and responsibilities. As noted by Robinson and Owens-Jackson (2009) diligent audit committees that meet often demonstrate “greater commitment and interest and are more likely to be effective monitors. In other words, the frequency of audit committee meetings indicates whether the entity is active or not. In essence, audit committee diligence, generally refers to the eagerness of audit committee members to pursue their terms of reference and goals. Since actual audit committee activity is difficult to measure directly, extant literature is dominated by the use of the number of audit committee meetings per annum as a substitute for such activity or diligence (DeZoort, Hermanson, Archambeault & Reed, 2002). Nonetheless, a number of other studies have used alternative proxies for diligence of the audit committee such as its mandatory disclosures, the duties it has to perform and its size. However, the most common substitute used in many studies has been the number of audit committee meetings for each year.

Size of Audit Committee

Most empirical studies support the notion that audit committee size influences corporate disclosure in the like of Barako et al. (2006), Watson et al. (2002) and Belkaoui (2000). Among the relationships that exist between financial reporting quality and segmental disclosure, the presence of audit committee size emerged as a variable that presents a substantial relationship with such disclosure. This is mainly because there are more opportunities for firms that grow in size to operate in bigger segmental financial reporting quality, in both business and geographical regards. Therefore, audit committee size is said to be one of the most examined determinants of economic disclosure and many researchers recognized this element as positively connected to higher disclosure. Based on these arguments, the following hypothesis is developed the size of the audit committee is another characteristic to consider in the effective discharge of audit committee duties.

Additionally, the size of the committee depends on the size of the enterprise and other relevant factors associated with the firm. In Nigeria, the concept of audit committees was incorporated under section 359(3) of CAMA 2004, which stipulates the establishment of an audit committee. The Act further provides that audit committees shall be made up of directors and shareholders representatives of the same one to measure reputation itself, it has to be based on an assumption of quality, which is difficult to evaluate however, researchers can deduce it from the audit methods used by audit firms.

Expertise of Audit Committee

Similarly, the UK Corporate Governance Code (2010) proposes that "the board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience". Notably, in contemporary usage expertise refers to financial expertise as well as experience. There is no doubt that such requirements or specifications of audit committees' directors have been proved to be crucial in dealing with the intricacies and complexities of financial reporting and as well as for minimizing incidents of financial reporting quality (DeZoort & Salterio, 2001; Carcello & Neal, 2003). It appears that the growing call in most accounting literature suggest that audit committees members should have a specific qualification and expertise to discharge their tasks. It is no wonder then that this characteristic of audit committee members has received considerable attention in the extant literature.

From the review of extant literature, a number of studies which focus on audit committee members' perceptions of their own capability or competence show that they believe that there is a lack of expertise in accounting, auditing and law in most audit committees. For example, Kalbers, (1992,) in studies targeting external auditors and internal auditors discovered that both groups had notably lower perceptions of audit committee members' proficiency than those of audit committee members. Despite the difficulty in accessing audit committee member expertise, a number of experimental studies regarding audit committee expertise were conducted (DeZoort, 1998; DeZoort & Salterio, 2001; McDaniel, Martin & Maines, 2002). In this respect, Robinson and Owens Jackson (2009) note that "relatively few studies explore the proposition that financial expertise enables members to better assess and monitor management actions relating to financial reporting." Nevertheless, empirical proof for this belief is insignificant. One likely explanation may be the lack of benchmarks or standards for members' financial literacy, which is often mixed with member's expertise in contemporary parlance. As a result, financial literacy has attracted less attention in the auditing and accounting research and literature vis-à-vis other characteristics such as independence and expertise.

Audit Committee and Financial Reporting Quality Disclosure

The role of the audit committee is increasingly becoming important in the governance mechanisms of many corporations. Said et al. (2009) assert that the audit committee plays a role in reviewing the company's process in ensuring high quality financial reporting. Haron, Jantan, and Pheng (2005) define the audit committee as a standing committee set up by the board with the objective of contributing to effective corporate governance and ensuring reliable financial reporting quality disclosures. Among their core duties include overseeing the entire financial reporting process and ensuring an objective external audit by providing the communication link between the external auditors and the board of directors (Vicknair, Hickman, & Carnes, 1993). Muhamad Sori, Albdul Hamid, and Md Nassir (2006) further add that an effective audit committee should possess sophisticated accounting knowledge, review of financial statements, traditional role in accounting and auditing, in order to ensure auditor independence, good management and internal control. The board of directors in some cases tends to transfer the responsibility of monitoring the process of financial reporting to the audit committee, although, this does not absorb the entire board of their legal financial reporting duty.

In Nigeria, section 359(3) and (4) of the Companies and Allied Matters Act mandates all companies to establish an audit committee (Corporate Affairs Commission, 1990). The Securities and Exchange Commission (2011) stipulates that Audit committees should assist in the oversight of the integrity of the company's financial statements compliance with legal and other regulatory requirements, assessments of qualifications and independence of external auditor, and performance of the company's internal audit function as well as that of external auditor.

The code further asserts that at least one member of the audit committee should be financially literate to provide the necessary expertise that would likely detect a case of earnings management. A review of the literature reveals a number of measures that have been used in the literature as a measurement of audit committee effectiveness such as size, financial expertise, independence, activity, multiple directorship and diligence (Abernathy, Beyer, Masli, & Stefaniak, 2014; Abernathy, Herrmann, Kang, & Krishnan, 2013; Albring, Robinson, & Robinson, 2014; Othman, Ishak, Arif, & Aris, 2014). Furthermore, prior studies have studied various attributes of the audit committee and financial reporting and come up with a number of findings for instance Abernathy, Beyer, Masli, and Stefaniak (2014) found that committee members with financial accounting expertise gained from public accounting experience was associated with financial reporting.

Othman et al. (2014) examine the relationship between audit committee characteristics and mandatory disclosure of largest 100 companies in Bursa Malaysia. The study found no relationship between audit committee independence, expertise, meetings and size and the mandatory disclosure of ethics, while audit committee tenure and multiple directorships had positive and negative relationship respectively with mandatory disclosure. In summary, there is still conflicting evidence in the relationship between audit committee and disclosures. Also, while prior studies have established the role of the audit committee in influencing corporate social disclosure, the relationship with financial reporting quality disclosures by companies especially in an underdeveloped economy like Nigeria is still missing, thus providing need for further research.

Audit Committee and Corporate Governance.

Many studies in the light of the following review have followed in examining the impact of the internal control system on the audit committees' efficiency of companies. Felo et al. (2003), in his thesis, found a positive relationship between audit committee size and financial reporting quality. These researches provided backing for the use of audit committee size as a proxy for the available audit committee resources. Mikol and Standish (2008) suggest that in the absence of constraints, auditors have inducements to create a competitive advantage by emerging attentions of multiple-service expertise. The gains, which could be attained from the economies of scope and improved client awareness, can decrease the costs of the audit company, and, in turn, the fees charged to the client for service provision (Mikol & Standish, 2008)

In Nigeria, SEC, under the provisions of the Companies and Allied Matters Act (CAMA 2004: Section 359, sub-section 3&4), obliges all listed companies on the Nigerian Stock Exchange (NSE) to institute audit committees (SEC, 2003). The wide acceptance of audit committees proposes their significance as part of corporate accountability and transparency, where audit committees are anticipated to serve as the watchdog of stakeholder interests (Blue Ribbon Committee, 1999). Previous studies have established a positive association between audit committee formation and disclosure quality. Baxter and Cotter (2009), for instance, specified that financial reporting quality increased after the year of audit committee formation. Dechow, Sloan, and Sweeney (1996) showed that companies with audit committee are less likely to influence disclosure and are more likely to freely disclose information (Ho & Wong, 2001). Wild (1996) reported an important increase in market response to earnings reports released after audit committee formation. Though, other studies show that the mere instituting of an audit committee does not essentially mean better financial reporting quality (Kalbers & Fogarty, 1993; Menon & Williams, 1994).

Corporate governance issues in Nigeria are usually discussed side by side corruption, which has been adduced to be a strong deterrence to development (Adegbite, 2012). The Nigerian government on her part has made efforts to addressing governance issues in companies by establishing corruption fighting bodies such as the Economic and Financial Crimes Commission (EFCC) to intervene in cases of financial fraud in both public and private sector organizations (Ehikioya, 2009).

The issue of audit committee financial expertise has been extensively discussed by accounting researchers. The necessity for financial expertise of audit committee members arises from the fact that audit committees functions for numerous duties that require a high degree of accounting complexity such as understanding auditing matters and risks as well as the audit processes proposed to address them. Understanding audit judgments and knowing the substance of variance between management and external auditors, and evaluating judgmental accounting areas. As an outcome those with such expertise are more likely to make expert judgments than those without such expertise (Wan-Hussin & Haji-Abdullah, 2009). Huang &

Thiruvadi (2009) suggested that a committee comprised of at least one member having an accounting or finance background is more likely to:

i. Have longer meetings with the chief internal auditor
ii. Provide private access to the chief internal auditor and
iii. Review internal audit proposals and results of internal auditing

They further found that stock markets react definitely to the announcement of the appointment of a financial expert in an audit committee. One other result by this paper is that the propensity for fraud in a firm is negatively related to the number of financial experts in an audit committee. An Australian survey in 1994 found that 46% of Audit Committee (AC) chair persons had accounting expertise. Although (Adelopo, 2010) found unimportant association between financial expertise of audit committee members in UK and their events , many other studies have found a positive association between the two variables.

Such studies include(Ashikin, Saat, Karbhari, Xiao, & Heravi, 2012) and (Madawaki & Amran, 2013) Jin,.Lin, Xiao, & Tang(2008) found that there is an important positive stock price reaction if new audit committee members have financial expertise, or the stock market will reward companies that appoint financial experts to their audit committees. In addition, aggressive earnings management was recognized by the same study as being negatively relationship with the financial and governance expertise of audit committee members. For (Zheng, 2008) audit committee Chairmen with financial expertise drive audit quality.(Samuel, 2012) suggests the following benefits, among others, of financial expertise in audit committees: higher ability to produce good annual reports; competence to meet roles of monitoring internal control and financial reporting and forecasting financial problems for the firms.

Audit Quality and Financial Reporting Quality
Audit quality have gain positive significant value to investors in capital allocation of resources since potential investors depend on the use of audited financial reporting quality as the major basis for economic decision making (Chen et al,. 2000; Zureigat, 2010; Kathleen et al., 2007). The major objective of audit quality is to provide assurance to potential investors that financial statements are thoroughly audited and reflects the true findings of audit opinion and audit engagement (Al-Ajmi, 2009)

DeAngelo (1981) posits that an auditor will detect and also report any infringement in a client’s accounting system and to express them in a suitable audit opinion (Vanstraelen, 2000). Kilgore 2012 suggested that there is no any single generally accepted definition of audit quality nor has any single generally accepted measurement introduced. Kilgore (2007) suggested that the most commonly measurement used for audit quality is the size of audit firm. Furthermore, the Big 4 has been asserted that the Big 4 are better than the non-Big 4 firm at detecting errors because they have greater resources at their disposal and can attract employee will superior skills and experience.(Okike,1999;Bavishi,1989).

According to Schroedes et al. (1986) reviewed that audit team is the most important factor that can influence the level of audit quality (DeZoort and Carcello, 2002). The auditor commitment to the code of ethics and the auditor knowledge of the industry is another factor that can influence the level of the audit quality (Atujei & Annafaabi, 2008). The existence of financial expertise in the audit quality team is very important factor that enhance the level of audit quality. The reputation of audit quality as regard the professional audit competencies and the independent of audit committee has a positive significant influence on the level of the audit. The audit quality should have notion of independence in appearance and independent in fact to enable the client's and the society at large have confidence in the audited financial reporting quality.

Audit Committee and Financial Reporting Quality in Nigeria

Institute of Chartered Accountant of Nigeria (ICAN, 2016) queried the efficacy of board audit committee in Nigeria, "Although the Companies and Allied Matters Acts clearly provide for the creation of audit committee their efficacy in the Nigerian context is another issue. The current situation is that composition is skewed in favor of management and this reduces the visible independence of the body and tends to compromise the quality of their work".

In spite of the vital responsibilities of audit committee, poor financial reporting quality is still in a high prevalent rate in virtually all corporations in Nigeria. This has been traced to the failure of an audit committee to 'question management's selection of accounting approaches.' Also, an audit committee is "neither intended nor equipped to guarantee to the board of directors and shareholders the accuracy and quality of a firm's financial statements and accounting practices." Additional, the committee "has no time to watch for the details in financial reporting, nor to design and device a strong internal control system to prevent poor reporting." In addition, an audit committee has "neither the time nor the technical knowhow to examine 'appropriate' accounting principles." "The members also have no power to oversee senior executives' teams or to argue with them; they often have close associations with corporate executives; they populate each other's boards and tend not to criticize each other. Because of these features, using audit committees as a tool for corporate governance has not been proven effective."

Improving corporate governance therefore requires someone to be responsible, to be ethical, and to work for the benefit of stakeholders. For proper discharge of duties, however, section 359 (4) of CAMA 2004 (as amended) provides that, the audit committee shall consist of an equal number of directors and representative of shareholders to a maximum number of six members, also, all members of the audit committee are subject to re-election annually. In addition, "all members of the audit committee should be financial literate and have understanding of the industry in which the firm operates and at least one member has financial expertise and professional qualification of a recognized professional accounting bodies"(Akinsulire, 2010). The Blue Ribbon Committee (1999) proposed for auditors to discuss with the audit committee the quality and not just the suitability of the financial reporting alternatives. Nevertheless, the responsibilities of audit committee in corporation have been described by accounting literature as that of a watchdog, and that of external auditor as a corporate watchdog. As an outcome, to safeguard the integrity of the external audit practice and guarantee the independence of mind of the external auditors SEC (2011) contends that, firms should rotate both the audit firms and audit partners from time to time. According to SEC (2011), "Audit personnel should be regularly charged without conceding continuity of the external audit process." It has also been recommended that external audit firms should be disengaged after continuous service to a company for a period not exceeding more than ten years from the date of appointment, but may be reappointed seven years after their disengagement.

Conclusion

Whilst several studies examined the effectiveness of audit committee reporting in Nigeria, Okoye & Cletus (2010); Owolabi & Ogbechia (2010) none explored the association between audit committee formation and characteristics in relation to financial reporting quality. In filling this research gap, this study makes a number of key contributions to the literature on audit committees and financial reporting quality. It provides first evidence on audit committee formation and audit committee characteristics and financial reporting quality in Nigeria and therefore has potential implication for regulators and policy-makers of the Nigerian capital market in increasing the effectiveness of audit committee listing rules.

This papers shows that the Audit Committee in Nigeria is seen from a very narrow prism. It is merely a ''Committee of Directors'' and the enterprise's shareholders representatives whose specific responsibility is to review the annual financial statements before submission to the board of directors. This contrasts with what obtains in the United States' publicly quoted companies. For instance, in a U.S publicly traded company, an audit committee is an operating committee of the Board charged with oversight of financial reporting and disclosure Wikipedia, 2011. It continues that Audit committee members are drawn from members of the firm's board of directors, with a Chair person selected from among the committee members. This paper provides evidence of the association among audit committee formation; audit committee attributes, and enhanced financial reporting quality for Nigerian listed firms.

The Companies and Allied Matters Act required that every public limited liability company should have an audit committee. Effective audit committee provides assurance to the shareholders that the auditors, who act on their behalf, are in position to, and do safeguard their interests (ICAN, 2010).

However, this study has identified other factors in the particular circumstances of Nigeria that are critical to audit committee quality. These include ability to ask relevant questions and exposure to seminars and workshops, the need to remunerate members, the need to allow members to serve for at least 3 years; the need for chairmanship of the audit committee to be held by shareholders representative; the need for the committee membership to be tilted in favor of more members from shareholders and the need for appointment and remuneration of auditors to be handled by the members of the audit committee.

This paper considered the fabric of corporate governance and how to weave it into producing financial information system that can guarantee credible financial reporting. The role of corporate governance in the matter of financial reporting quality has been subject to recent debate. The development has been subject to rigorous analytical and empirical testing. This work agrees that improving corporate governance regulation is a key factor to strengthening financial reporting quality.

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