

Corporate Audit Committees and Risk Controlling in Nigeria

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Abstract

This study investigates the impact of internal control system of firms in Nigeria on the effectiveness of audit committees with ten (10) firms collected across the manufacturing sector of the Nigerian economy and employing the cross-sectional time-series technique of panel model dichotomized into its short-run analyses and long-run situation fashion and covering the periods 2000-2009. Our findings suggest that, given the short-run condition, none of the features of internal control system of corporate firms really affect the effectiveness of corporate firms in Nigeria while estimates obtained from the long-run situation indicate that board size and management ownership significantly affect the effectiveness of audit committee in Nigeria with board composition, leverage position of firms, profitability and shareholding positively but insignificantly impact (positive influence) on audit committees' effectiveness. Thereby, the effect of internal control system of firms and audit committees' effectiveness can be seen as a long-run phenomenon in Nigeria. Stemming from these outcomes, this study proffers sound corporate governance, good governance, stable macroeconomic policies and appropriate audit committee's composition as necessary policy suggestions.

Key Words: Audit Committee, Control Risks, Panel Model, Nigerian Firms.

I. Introduction

Control risks are the risk that the internal control system may not prevent or detect the material misstatements or errors inherent in financial statements and reports (ICAN, 2010). Since the audit committee serves as the template for operationalising the activities of the internal control within the fulcrum of an organization; one such mechanism that has been widely used all over the world in corporate organizations to monitor the financial reporting process and corporate governance is the establishment of an audit committee comprising majorly of independent directors (Abbot and Parker, 2000). Interestingly, the need for internal control in any organization has existed since the beginning of management since the system of control adopted in any economy greatly determines the development and growth of that economy by optimal utilization of men, material, money, machine and time resources. Internal control can neither be neglected nor under-related in any modern and dynamic economy as it was born out of the complexity of the modern business world. The controls are put in place by many organizations including banks to check their resources, minimize wastage and guide plan to their eventual accomplishment.

Originally, the auditor is required to express an opinion of the truth and fairness of the financial statements of a company's enterprise. In order to be able to express his opinion, the auditors must have examined the records and underlying transactions whether the financial statements are in line with the records. In small business with few transactions, vouching method may be used to examine every transaction and entry in the books. However, in big companies where transactions are numerous, the procedures of vouching all transactions will be very cumbersome and the cost involved will be high (Awe, 2002). It is therefore usual for auditors to determine that there is a system of procedures which if effectively applied all the time will ensure that all records are reliable. This system of procedures design to produce reliable records is usually called "the system of internal control" (Awe, 2002).

Evidences, however, emanating from recent high profile corporate collapses worldwide (e.g., Lehman Brothers, Enron Corp. and WorldCom in U.S) have really placed skepticism on the efficacy of this system of internal control and as such makes this area of research a special interest to investors, regulators and academics not only in countries that suffered from such corporate collapses, but also in countries that have never experienced such crises. As a result, more attention has been given to regulations and mechanisms to enhance corporate governance worldwide in order to prevent or at least reduce the probability of the occurrence of financial failures and to restore the confidence in companies after they were shocked by the collapse of giant companies. However, the search for mechanisms to enhance corporate governance and increase the quality of financial reports has mostly focused on the structure of audit committees. For example, Levitt (1998), the former US Securities and Exchange Commission chairman (SEC), stated that: "*Qualified, independent and tough minded audit committees represent the most reliable guardians of the public interest*".

Furthermore, a number of studies have investigated the efficacy of the Blue Robin Committee recommendations in enhancing audit committee effectiveness. For example, Abbott et al. (2002) investigated the relationship between audit committee effectiveness and financial reporting misstatements using the Blue Robin Committee recommendations as benchmarks. They found that companies with an audit committee, which was independent and active, were less likely to have financial reporting misstatements. Their results support the Blue Robin Committee recommendations and provide indicators for the efficacy of such recommendations in enhancing audit committee ability to discharge its duties effectively.

However, very limited research has been done to evaluate audit committee effectiveness in Nigeria using their own set of principles and recommendations as benchmarks. As a result, very little is known about the efficacy of such principles and recommendations. This study focus on the audit committee's roles in auditor selection and protection of auditor independence by limiting non-audit services purchases because of two reasons. First, a number of researchers, regulators and professional bodies (e.g., Birkett 1986, Braiotta 1994, and Blue Robin Committee 1999) have considered the nomination and selection of external auditors and the protection of their independence to be the primary responsibilities of the audit committee. Second, independent audit committee members have incentives to protect their reputational capital by assuming significant responsibility for the engagement of the audit firm and the protection of its independence (Fama and Jensen 1983). As a result, this study investigates the efficacy of the Nigeria firm's best practices and recommendations regarding audit committees in the context of auditor selection. In the last few years following the collapse of giant firms worldwide, more attention has been given to enhance audit committee effectiveness as an important means to ensure high quality financial reports.

In fact, this research work covers significantly, research gaps evidenced in previous works. It will be the first study, to the best of our knowledge, that uses six different audit committee characteristics to evaluate audit committee effectiveness in the context of auditor selection and non-audit services purchases as most of the prior studies used only two or three audit committee characteristics. For example, while Abbott and Parker (2000) used only audit committee independence and activity to examine the impact of having effective audit committee on audit quality, Chen et al (2005) used audit committee independence, activity and expertise to examine the same issue.

II Conceptual and Theoretical Issues

Although most of the studies that have examined audit committee formation and effectiveness have used the agency theory framework, other theories have been used to evaluate audit committee effectiveness. In this part, the agency theory and three other theories, namely, institutional theory, actor-network theory and power theory are discussed briefly.

Firstly, the separation of management from ownership in the modern corporation provides an ideal context for the operation of agency theory. The use of audit committees can be considered an important part of the decision control system for internal monitoring by boards of directors (Fama 1980 and Fama and Jensen 1983). Using an agency theory framework, prior research, which investigated the relationships between the formation of audit committees and different agency costs, has produced mixed results (e.g., Pincus et al 1989; Bradbury 1990) and has failed to systematically evaluate the activities or effectiveness of such committees (Kalbers and Fogarty 1993). Therefore, the formation of an audit committee does not necessarily translate into an effective monitoring body (Sommer 1991 and Abbott et al 2002).

Secondly, institutional theory suggests that organizational structures in such an environment become symbolic displays of conformity and social accountability (Meyer and Rowan 1977). In other words, internal operating processes loosely coupled with the observable structures accomplish the real work of the organization. As a result, organizations with the appropriate structures in place avoid deep investigations of their operating core by external parties (Meyer and Rowan 1977).

Fogarty (1996) concluded that the key attribute of institutional theory lies in its ability to highlight the distinction between what organizations actually accomplish and what their structures suggest to the external environment. This indicates that this theory is very useful for researchers who aim to compare the best practice for audit committees with the actual performance for such committees. The institutional theory suggests that audit committee effectiveness is more attributable to internal factors such as topics covered by the audit committee than

to external factors such as agency variables (Kalbers and Fogarty 1998). As a result, researchers (e.g., Kalbers and Fogarty 1998) who have used institutional theory argued that publicly available information is of limited use in getting at the reality of the audit committee as one of the most important corporate governance mechanisms and its effectiveness.

Lastly, Weber (1968) defined power as the ability to act successfully even against the resistance of others. Although this definition is only one of many found in the literature, it indicates the situations in which one social actor prevails over others. In the context of audit committees, Kalbers and Fogarty (1993) identified six types of power that could affect audit committee effectiveness. Legitimate power results from the fact that an audit committee is established through delegations of responsibility from the corporate board of directors. However, this board of directors is charged with ultimate accountability for corporate management. Despite the fact that the work of the audit committee may be reviewed by the board of directors, the audit committee still holds important decision-making authority. Sanctionary power results from the ability of the audit committee in making decisions that can have impacts on rewards and punishments to other parties such as corporate officers, the internal auditors and external auditors. Because audit committee members are most often outside directors, they are dependent on management, internal auditors, and external auditors for information. As a result, the success of such committee depends on the institutional support that it will get from all the three parties. Decisions made by the audit committee are rationally influenced by the members' ability to obtain information and to use it in a way most likely to accomplish audit committee objectives (information power).

III. Literature Review

Many researches in the light of the following review have followed in investigating the impact of the internal control system on the audit committees' effectiveness of firms. Felo et al (2003), in his study, found a positive association between audit committee size and financial reporting quality. These studies provided support for the use of audit committee size as a proxy for the available audit committee resources. Mikol and Standish (2008) argue that in the absence of restrictions, auditors have incentives to create a competitive advantage by developing concentrations of multiple-service expertise. The benefits, which could be obtained from the economies of scope and increased client awareness, can reduce the costs of the audit firm, and, in turn, the fees charged to the client for service provision (Mikol and Standish 2008).

The association between audit fee and non-audit services is important due to its potential to impact on auditor independence. The link between management and auditor has been analytically documented to increase with the provision of non-audit services. For example, Beck et al. (2008) argued that providing non-audit services would result in cost savings that may be distributed between the audit firm and the client. These cost savings, which represent increased future economic benefits in the client, create incentives for the auditor to resolve disputes in the client's best interest (Davis et al. 2003).

Gul et al. (2006) conducted a study to investigate the impact of non-audit services purchases on auditor independence in appearance by examining the market perceptions in term of the earning-returns model. They found that non-audit services purchases influence the market perceptions in term of the earning-returns model, which indicates that there is a negative relationship between non-audit services purchases and auditor independence in appearance. The results of Wines (1994) were consistent with earlier studies by Simunic (1984) and Palmrose (1986). This stream of research was based on the notion that auditors prioritize their own economic benefits over independence (Barnes and Huan 1993). Moreover, Song and Windram (2000) found that UK companies with an audit committee with a higher level of financial literacy are less likely to have financial reporting problems.

In addition, Simunic (1984) investigated the association between audit fees and non-audit services purchases. He found a positive association between audit fees and the magnitude of non-audit services purchases. Moreover, Palmrose (1986) examined the same issue and found the same positive association between non-audit services and audit fees. However, using a survey methodology, Abdel-Khalik (2009) argued that such positive relationship does not exist. The author concluded that the level of non-audit services purchases has no impact on the audit fees. Parkash and Venable (2003) stated that the inconsistencies between the results of these could be attributed to methodological faults such as survey response bias and inconsistent non-audit services definition.

The existence of a positive relationship between audit fees and non-audit services purchases increases concerns

because where the benefits of cost savings are retained by the auditor; the auditor becomes more dependent on the client, posing a threat to independence (Parkash and Venable 2003). The existence of a positive relationship between non-audit services fees and audit fees has also been documented in the UK. For example, Ezzamel et al. (2006) found that there was a positive association between non-audit services purchases and audit fees. A study by Frankel et al. (2001) provided empirical evidence on the influence of non-audit services purchases on auditor independence. They investigated the market reaction of disclosing non-audit services fees after the introduction of the new US disclosure requirement by the Securities and Exchange Commission that requires all listed companies to disclose both audit and non-audit services fees. The results of this study indicated that there was a significant negative market reaction with respect to firms with the highest unexpected non-audit services fees.

Moreover, the authors found that companies with high levels of non-audit services fees were more likely to meet or beat earnings benchmarks compared to these companies with low levels of non-audit services fees. The authors concluded that the magnitude of non-audit services could threaten auditor independence. However, although the number of observations was large, the small sample period of four months may limit the ability to generalize these results. Barkess and Simnett (1994) investigated the relationship between the magnitude of non-audit services fees and the issuance of qualified audit reports. They found that there was no association between the magnitude of non-audit services fees and the probability of receiving a qualified audit report.

Barkess and Simnett (1994) examined the association between the stability of auditor tenure and the magnitude of non-audit services fees. They concluded that there was no relationship between the level of non-audit services fees and auditor tenure. Craswell (1999) investigated the influence of the level of non-audit services fees on the nature of the audit opinion using Australian data for 1984, 1987 and 1994. The author found that there was no association between audit opinion and the level of non-audit services fees indicating that the level of non-audit services fees might not create a threat to auditor independence. DeFond et al. (2002) investigated the relationship between non-audit services purchases and the issuance of a going concern opinion to examine the influence of non-audit services purchases on auditor independence. They found no evidence that non-audit services purchases impair auditor independence and concluded that the recent Securities and Exchange Commission regulations based on concerns that non-audit services purchases impair auditor independence, are unfounded.

In addition, the study of Ashbaugh et al. (2003) examined the influence of non-audit services purchases on auditor independence. They found no evidence that non-audit services purchases impair auditor independence. On the other hand, many other studies have examined the perceptions of external parties to determine the impact of non-audit services provision on auditor independence. For example, Pany and Reckers (1983) investigated the perceptions of shareholders and financial analysts regarding the relationships between the perceived threats to auditor independence and different types of non-audit services. They found that the perceived threats to auditor independence vary with the type of non-audit services indicating that different types of non-audit services might pose different level of threats to auditor independence.

Carcello and Neal (2000) found that financially distressed firms with independent audit committees were more likely to receive a going-concern qualification. Carcello and Neal (2003) found audit firms, which issued initial going concern reports, were less likely to be terminated when the audit committee is composed entirely of independent directors. These researchers suggest that different audit committee characteristics critically impact audit committee effectiveness in performing their functions and responsibilities (Abbott et al. 2003). More so, Bedard et al., (2004) investigated the association between different audit committee characteristics and earnings management. They found that aggressive earnings management is negatively associated with the presence of an independent audit committee.

Finally, Abbott et al. (2003) examined the relationship between two audit committee characteristics, namely, independence and activity, and the relative magnitude of non-audit services purchases. They found that firms with independent and active audit committees had a lower ratio of non-audit services fees paid to the incumbent auditors relative to audit fees. However, they compounded only two of the audit committee characteristics (independence and activity) into a single variable called audit committee effectiveness ignoring the influence of the rest of audit committee characteristics on audit committee effectiveness and ultimately on the non-audit services purchases. In addition, they did not investigate which of the two audit committee characteristics contributes more to the control of non-audit services purchases. Moreover, they used 2001 as their test period, which was the first financial year after the Securities and Exchange Commission required all listed companies to

disclose their audit and non-audit services fees. This indicates that limiting non-audit services purchases might be a result of management's desires to send a positive message to the external users of the financial reports that management acts in the best interest of the shareholders and other third parties and not because of the audit committee efforts to control such purchases.

IV. Methodology

IV.1 Data Sources and Techniques of Analysis

In investigating the relationship between audit committee effectiveness and the internal control system of Nigerian firms, this study employs quantitative analysis of financial information using appropriate statistical techniques and covering the period 2000 and 2009. This period coincides with the period of transition in government in Nigeria from Military Rule to Civilian. Thus, it is of interest to us to examine the effectiveness of audit committee and internal control system of firms in Nigeria. Since much research work has been carried out before the transitional period and little thereafter. In addition, we decide to expand our study to cover ten years analysis of ten firms in the manufacturing sector so as to allow for wider comparison among those firms. To this end, panel data regression method of analysis is employed. It involves the use of time series and cross sectional data which is the necessary requirement for the analysis.

From the methodological standpoint, the AQ_Continuous (Audit Quality Continuous) method would be used in this study to conduct the main regression analysis to model audit quality. The decision to use that method was made because it overcomes the disadvantages associated with other proxies and methods such as the arbitrary selection of the cut-off points or ignoring the differences between different levels of audit quality. However, auditor size proxy and, AQ_Craswell and AQ_Palmrose methods are used to conduct sensitivity tests to illustrate the impact of using different proxies or specialization methods on results of the main analysis.

IV.2 Model Specification and Definitions of Variables

Stemming from the above submission, the most appropriate model to capture audit committee's effectiveness and the internal control system of corporate firms which is in tandem with the peculiar nature of the Nigerian economy is as specified below:

$$\begin{aligned} \text{NAS_RATIO}_{i,t} = & \alpha + \beta 1 \text{AC_IND}_{i,t} + \beta 2 \text{AC_SIZE}_{i,t} + \beta 3 \text{AC_ACT}_{i,t} + \\ & \beta 4 \text{AC_CHAR}_{i,t} + \beta 5 \text{AC_EXP}_{i,t} + \beta 6 \text{AC_LIT}_{i,t} + \beta 2 \\ & \text{BO_IND}_{i,t} + \beta 3 \text{IN_OWN}_{i,t} + \beta 4 \text{LEVERAGE}_{i,t} + \beta 5 \\ & \text{ROA}_{i,t} + \beta 7 \text{LN_SALE}_{i,t} + \beta 8 \text{SH_BLK}_{i,t} + \beta 9 \\ & \text{FOR_SALE}_{i,t} + \varepsilon_{i,t} \end{aligned}$$

Where:

NAS_RATIO is the dependent variable; refers to the ratio of non-audit service fees to audit fees and equals the total non-audit services (NAS) fees including information technology fees (IT fees) divided by the total audit fees. Audit quality and non-audit services are the dependent variables. The independent variables include size, independence, charter, expertise, competence. In addition to the independent variables, the model included certain control variables which are likely to influence audit committee effectiveness. The Control variables include: corporate governance, agency, profitability and non-audit services quality; ε is the random element of residuals while i,t denotes the cross-sectional time series index of 10 companies randomly across the Nigerian economy during the period 2000 and 2009.

IV.3 Measurement of Variables

The dependent variables for the effectiveness of audit committee are audit quality and non-audit services. Non-audit services is the ratio of non-audit service fees to audit fees and equals the total non-audit services fees including information technology fees (IT fees) divided by the total audit fees.

Independent Variables

Board composition: this variable refers to the percentage of non-executive directors on the board; equals the number of non-executive directors on the board divided by the total number of directors on the board

Management Ownership: This equals the percentage share ownership that management has in the company

Leverage: This refers to the company's debt; equals the ratio of total debt to total assets as measured at the end of

the test period

Profitability Return on Assets: This refers to the profitability of the firm; equals net income divided by the total assets at the end of the testing period

Firm Size: this equals the natural log of total sales

Shareholders Block-Holding: This equals the number of shareholders who own at least 5% of the total shares

Non-audit services Specialization: This equals the auditor's market share of NAS fees in the total NAS fees for the firm's industry

V. Model Estimation and Analyses

V.1 Descriptive Analysis

Table 1: Coefficients of Description

V.2 Graphical Trend Analyses

"Take in Figure 1" and "Take in Figure 2"

The descriptive analyses depicted in Table V.1 above informs that with the exemption of the shareholding, all the variables included in our model are less volatile since they only marginally depart from their mean values as indicated by the standard deviation which shows values less than 1 in most cases and only at 2.37 for non-audit. This submission is also likely to contribute to the skewness and peakedness position of these variables. Also, the graphical illustration above are highly instructive and reveals that of all the indicators of internal control system employed in the study, only the board size (proxied as board_size) and the management ownership (proxied as mgt_owner) work in relation with the audit effectiveness of corporate firms in Nigeria (see Figure 2) while others such as the share holding (see Figure 2) and leverage, board composition (proxied as board_compst) and profitability are all at variance with the audit committee effectiveness (see Figure 1).

V.3 Model Estimates

V.3.1 Dynamic Model Estimates

Table 2: System (Arenallo-Bover) Dynamic Panel Model Estimates

V.3.2 Static Panel Estimates

Table 3: Static (Fixed-Effects) Panel Model Estimates

VI. Discussion of Findings

Indications emanating from the tables above (see Table 4.4.1) suggest that following the estimates of the dynamic panel model earlier specified, only the board size (proxied as board_size); of all the indices of internal control system of corporate firms in Nigeria, impact negatively and significantly, at the 5% level of significance, on the effectiveness of audit committee in corporate firms. The board_size has -2.9513 coefficients with 2.16 absolute Z-statistics value coupled with 0.031 p-values. More so, the board composition (proxied as board_compst), the leverage position (proxied as leverage) and the management ownership (proxied as mgt_owner) are also negatively related to the effectiveness of audit committee in corporate firms in Nigeria with -2.5715, -2.3338, -2.9513 and -0.7039 coefficients but insignificant at 1.21, 1.29, 0.21 absolute Z-statistics values respectively. However, the profitability index (proxied as profitability) and the shareholders block holding (proxied as share_holdg) holding are although insignificant at the 5% level with Z-statistics values of 0.89 and 0.44 coupled with 2.0615 and 0.0016 coefficients respectively.

In order to overcome the weak instruments limitation inherent in the differenced dynamic panel model, the estimates of the system dynamic panel model, as proposed by Arellano and Bover (1995), were sought. Estimates obtained from this system dynamic model are, however, not different from its differenced counterpart as exemplified above. That is, none of the indicators of the internal control system of corporate firms affect the effectiveness of audit committee except the board size with both negative and significant impact. It has -1.6303 coefficient and absolute 1.62 Z-statistics value as well as 0.106 p-values.

More interestingly, the coefficient of the lagged dependent variable (as proxied by non-audit) is insignificant at the 5 percent level in the differenced dynamic panel model with a coefficient of -0.1268 and 0.73 Z-statistics ratio coupled with 0.465 p-value (quite higher than the 0.1 significance benchmark) while the system dynamic panel model has 0.0197 coefficient and 0.13 Z-statistics coupled with 0.896 p-values (quite lesser than the 0.1 significance benchmark). Hence, the inclusion of the lagged dependent variable as a potential independent variable, both for the differenced and system dynamic panel models, is highly unjustifiable.

Therefore, recourse to the linear dynamic panel model will be more appropriate. The estimates obtained from this (linear) version of the dynamic panel model refute the assertion by both the differenced and systemic versions that the board size (proxied as board_size) significantly affects the effectiveness of audit committee of corporate firms in Nigeria. These estimates show that, given the short-run condition, none of the indices of internal control system of corporate firms actually affect the effectiveness of corporate firms in Nigeria. The board_compst, leverage, board_size and mgt_owner are all negatively linked to the effectiveness of corporate firms with -0.1902, -1.6267, -1.2072 and -2.9526 coefficients and 0.07, 0.78, 1.08 and 1.00 absolute Z-statistics values at the 5% level of significance while profitability and share_holdg have 3.1827 and 0.0022 coefficients with 1.06 and 0.63 Z-statistics values.

Nevertheless, the dynamic model estimates (which are not reported here for want of space but available on request), as submitted by De Benedictis, De Santis and Vicarelli (2005) is found more suitable for short-run influences while the static panel model is more suitable for long-run relationship, hence, we obtain the estimates of the latter to ascertain if any of the variables included in our model as indicators of internal control system can actually affect the effectiveness of audit committee in Nigeria in the long-run situation. Both fixed-effect and random-effect versions are obtained but the fixed-effect static dynamic panel model is employed since its random-effects counterpart is found to be insignificant (as made manifest by the hausman test carried out) – appendix refers. Indication from the fixed-effect static dynamic panel model denotes that, in the long-run, none of the indicators of internal control system will significantly affect the effectiveness of audit committee of corporate firms in Nigeria.

In the long-run, the board size (proxied as board_size) and the management owner (proxied as mgt_owner) are negatively and significantly related to the effectiveness of audit committee -2.7237 and -0.6507 coefficients and 1.32, 0.15 T-statistics ratios respectively while the board composition (proxied as board_compst), leverage, profitability and share holding are positively related with 1.6227, 0.1460, 1.7303 and 0.0005 coefficients coupled with 0.76, 0.08, 1.10 and 0.18 T-statistics ratios. All these are insignificant at the 5 percent level.

Empirically speaking and in relation to the insignificance convergence, in the Nigerian case, of the short-run analyses and long-run situations, this work relatively disagrees with many studies such as Buckby et al., (1996) and Vefeeas (2001) whose studies opined that audit committee's independence, expertise and financial literacy were all important determinants of audit committee's effectiveness. However, this study, by the virtue of the negative linkage between the leverage position of Nigerian firms and audit committee's effectiveness in the short-run situation, agrees with the study of Song and Windram (2000) which found that UK firms with an audit committee of a higher level of financial literacy are less likely to have financial reporting problems.

Furthermore, this study, by the virtue of the negative link between the management ownership and audit committee's effectiveness, totally conforms to the available empirical submission such as Bedard et al., (2004) which concluded that aggressive management is negatively associated with the presence of a clear mandate defining the responsibilities of the audit committee. On the whole, the Wald-statistics and F-statistics ratio obtained from the models corroborate the overall insignificance of these variables of internal control system on the effectiveness of the audit committee's effectiveness as it has a value of 10.90, 7.38 and 6.34 for the differenced, system and linear dynamic panel model while the F-ratio for the static (fixed-effect) panel model is 0.86.

VII. Conclusion and Recommendation

Shortly after obtaining the estimates for the descriptive analyses, we proceed into the techniques of dynamic panel model and static panel model in order to ascertain the short-run analysis and long run situation of how the internal control system of corporate firms in Nigeria impact on the effectiveness of the audit committee. Under the dynamic panel model; the differenced, systemic and linear versions were employed while for the static, the fixed-effect and random-effect versions were also tested with the former taken being more significant and thus employed for the

long-run analyses.

Although there are mixed effects of both positive and negative relationships of the indicators of the internal control system at all versions of the panel model, a consensus only exists for the estimates of the linear dynamic panel model (as a short-run analysis) and the fixed-effect static model (considered for the long-run situation) on the insignificance effect of the internal control system of corporate firms on the effectiveness of audit committee in the Nigeria with board size and management ownership are impact negatively on the effectiveness of audit committee; in the latter (long-run) analyses.

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).

Consequent upon the discussions above, sound corporate governance and the independent of the audit committee are two important factors here. Corporate governance is the key policy goals and deliberate efforts at ensuring that those shouldered with the responsibility of managing the organisation's resources (i.e. the board of directors) are doing it to the best interest of the owners of the business (i.e. the shareholders). The case where a single individual or a collection of individuals cart away the corporate wealth to enrich themselves and favour cronies and families at the detriment of the corporate existence, expansion and survival is no longer acceptable. This is evident is the Central Bank of Nigeria's (CBN) overhauling of the banking industry for transparency and accountability where sanctions are adequately melted out to erring bank managers. On the other hand, the independent audit committee hinged largely on its composition, qualification and experience. In Nigeria, the bases for these requirements are embedded in the various sections of the Company and Allied Matter Act (CAMA) 1990 and it should be strictly adhered to.

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Appendix 1:

Figure 1: Internal Control Indicators

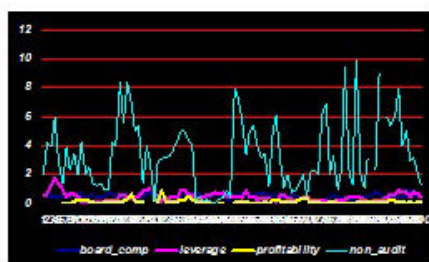


Figure 2: Other Internal Control Indicators

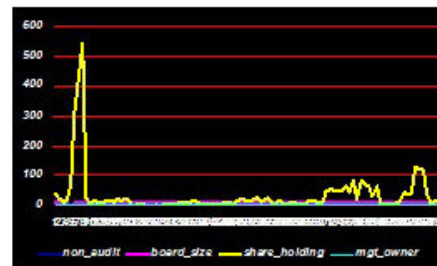


Table 1: Coefficients of Description

Variable	Obs	Mean	Std. Dev.	Min	Max
board_compst	98	.5214286	.1500859	.2	.9
leverage	98	.5071429	.285473	.1	1.8
profitabil~y	90	.1703333	.1365255	.01	.9
board_size	99	9.946465	.6164932	8.8	11.2
share_holdg	100	35.38	76.63356	1	545
non_audit	98	3.35102	2.367009	.1	10
mgt_owner	100	.594862	.1386554	.2421	.9514

Source: STATA Output

Table 2: System (Arenallo-Bover) Dynamic Panel Model Estimates

Non_audit*	COEFFICIENT	STD. ERROR	Z-STATISTICS	P-values
Non-audit_1	0.0197	0.1506	0.13	0.896
Board_compst	-0.8761	2.0884	-0.42	0.675
Leverage	-2.0742	1.5235	-1.36	0.173
Profitability	1.3163	2.3198	0.57	0.570
Board_size	-1.6303	1.0095	-1.62	0.106
Share_holdg	0.0023	0.0033	0.71	0.478
Mgt_owner	-1.1928	2.8019	-0.43	0.670
_cons	21.4818	10.6895	2.01	0.044

Source: STATA Output *Dependent Variable

Table 3: Static (Fixed-Effects) Panel Model Estimates

Non_audit*	COEFFICIENT	STD. ERROR	T-STATISTICS	P-values
Board_compst	1.6227	2.1363	0.76	0.467
Leverage	0.1459	1.8620	0.08	0.939
Profitability	1.7303	1.5719	1.10	0.300
Board_size	-2.7237	2.0670	-1.32	0.220
Share_holdg	0.0005	0.0027	0.18	0.863
Mgt_owner	-0.6507	4.2256	-0.15	0.881
_cons	29.86	20.968	1.42	0.188

Source: STATA Output *Dependent Variable; F (6, 9) = 0.86; Prob > F = 0.557