

# Audit Committee Characteristics and Audit Efficiency: Evidence from Nigerian Listed Deposit Money Banks

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## Abstract

The study examines the effect of audit committee characteristics on audit efficiency of Nigerian listed Deposit Money Banks. A sample size of 11 listed banks is selected using a census technique. The study covers a period from 2006 to 2020, resulting in 165 firm-year observations. The audit efficiency is proxy using audit fee and audit delay. The data obtained is analysed using the Ordinary Least Square Method (OLS). The result shows that audit committee is positively associated with audit fee, but negatively related to audit delay. The result indicates that audit committee members recommend a reputable independent accountants to the banks, who charge a premium audit price. However, the external auditors ensure financial reporting quality by reducing the protracted audit delay.

**Keywords:** Audit delay, Audit committee members, Audit fees, Nigeria, Banks

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## 1.0 Introduction

The first decade of the 21st century witnessed high-profile corporate failure and accounting scandals such as Enron, WorldCom, Satyam and Freddie Mac, despite the financial statements of these companies being verified by the statutory auditors. The aftermath of these scandals made the stakeholders sceptical about the audit efficiency, the input (audit fee) and the output (timeliness of the financial report and the quality). Hence, this aroused the need for an effective corporate mechanism to monitor and oversee the company's statutory auditors and other financial reporting agents.

Auditors are accused of charging a fee not commensurate with the audit efforts, invariably lowering the financial reporting process and output. An excessive audit fee is likened to a bribe (Asthana et al., 2012; Choi et al., 2010; Krauß et al., 2015) that compromises an auditor's independence, consistent with economic bonding theory and agency theory. Conversely, there is evidence of auditors charging a fee less than the cost leading to audit inefficiency (Asthana et al., 2012; Behrend et al., 2020; Ettredge et al., 2014; Nugroho & Fitriany, 2019). Also, the external stakeholders are concerned about the protracted audit delay, as these users rely on the audit report to make an informed economic decision (Bhuiyan & D'Costa, 2020), especially in emerging economies where the audit report serves as the main source of financial information available for capital market decisions (Al-Ajmi, 2008; Owusu-Ansah, 2000; Soltani, 2002). There is evidence of financial reporting delays, despite the financial regulatory bodies in most countries setting the deadline for listed firms to furnish the audited report to the general public and appropriate stock exchange authorities. For instance, Eze & Nkak (2020) asserts that the listed firms in Nigeria usually delay in furnishing their financial statement.

Two agents are responsible for the financial report (Abdillah et al., 2019). There are doubts about the agents, that is, the management and auditors, in exercising diligence and care in discharging their responsibilities arising from the information asymmetry. In line with agency theory, the management may engage in opportunistic behaviour (Abad et al., 2017; Fama & Jensen, 1983; Jensen & Meckling, 1976), while the auditors could negotiate an independent opinion for a price. The evidence of audit inefficiency necessitates a robust corporate governance mechanism. The credibility of the financial report necessitated there is a need for a body to oversee and monitor the activities of the principal actors of the financial report (see; SOX 2002; CAMA, 2004). Financial regulatory bodies across the globe institute the corporate governance code to ensure the financial report's reliability and relevance. For instance, in the United States of America, the Sarbanes-Oxley (2002) Act was enacted, while in Nigeria, the Companies and Allied Matter Act (CAMA 2004; 2020) and The Financial Reporting Council of Nigeria (FRCN) Act of 2011 were established.

The board of directors is the apex authority in any corporate mechanism structure. The body achieves its financial, accounting and auditing-related issues through various standing committees, among which the audit committee is among others. The audit committee's duties are to oversee and monitor the auditing, accounting and financial reporting-related issues. The audit committee is expected to play a critical role in the statutory auditors' appointment, remuneration, appraisal, and dismissal (see CAMA 2004; 2020; SOX 2002). Also, the audit committee evaluate the internal control system, the audit process and procedures. Hence, based on the above-mentioned, audit committee effectiveness cannot be undermined. For effective discharge of audit committee duties, the committee must be diverse. This standing committee must contain independent member(s) and

financial expertise and be diligent in its decision-making process.

Hence, there is a need for the audit committee to possess characteristics such as independence, financial expertise, frequent meetings and gender diversity. However, despite instituting the corporate governance mechanism, limited studies have examined the audit committee's effectiveness on audit efficiency. In support of this, Bedard and Gendron (2010) assert that there are no existing studies on audit committee effectiveness and delay before their study. Also, current studies (Abernathy et al., 2014; Bhuiyan & D'Costa, 2020; Oussii & Takta, 2018; Sultana et al., 2015) indicate that literature is scarce on the audit committee and emphasise the need to examine the effect of the audit committee on protracted financial reporting delay. Also, there are limited studies on the audit committee and audit fee (Kikhia, 2014), despite Simunic's (1980) postulation that there are the clients, auditors and corporate attributes that drive audit fees.

The Nigerian environment has also witnessed several corporate failures, such as Cadbury Plc, Oceanic Bank, Intercontinental Bank, and Standard Trust Bank. Also, the CAMA (2004), (2020), FRCN (2011) and (2020) mandated the Nigerian listed firms to constitute an audit committee. However, just like in the advanced economies, Nigeria has limited audit committee effectiveness and efficiency studies. Empirical evidence on audit delay focuses on firm-specific characteristics (Adebayo & Adebisi, 2016; Efobi & Okougbo, 2014; Oraka et al., 2019) and audit-specific characteristics (Arowoshegbe et al., 2017; Muhammad, 2020). Also, the literature on audit fees focuses on the firm-specific and audit characteristic (Ilaboya et al., 2017, Onaolapo et al., 2017) with limited studies (Abu & Okpe, 2021; Aifuwa et al., 2020; Chukwu & Nwabochi, 2019) focusing on the corporate governance mechanism. The motivation for the study is borne out of the limited empirical evidence on audit efficiency and the level of audit litigation arising from the Nigerian external stakeholders. The study contributes to the limited existing knowledge on the effect of audit committee characteristics on audit efficiency. Secondly, the study fills the gap by measuring audit efficiency from the output and input perspective using audit delay and fees that are rarely used by Nigerian auditing and financial reporting researchers. The audit delay is measured using two surrogates; the audit report lag and SEC timely filing. The study measured audit fees as the actual audit fee and the abnormal audit fee.

In achieving the objective, the study focused on Nigerian listed Deposit Money Banks (DMBs) from 2006 to 2020. However, sample firms' stocks must be actively traded on the Nigerian Exchange Group Plc (NGX); the data for these DMBs must be available over the period. Finally, the DMBs must have been incorporated before 2006. A census study sampling technique was employed. Based on the criteria, 11 DMBs were selected, resulting in 165 firm-year observations. The result shows that audit committee financial expertise, independence and meeting are positively and significantly related to audit fees but negatively related to audit delay, an indication that the audit committee financial experts and independence members recommend paying a premium audit fee to the audit firms through due diligence at the meeting resulting to a reduction in audit delay. Also, the result shows that female members are negatively related to audit fees and delay, indicating that independent and female members are conservative and result-oriented, leading to timeliness for financial reporting at a reasonable price. The remaining part of the paper is sectioned: section two, literature review and hypothesis development. Section three discusses the applicable methodology. Section four discusses and interprets the study's empirical results, and finally, section five shows the study's conclusion, limitations and recommendation.

## **2.0 Literature Review and Hypothesis Development**

### **2.1 Nigerian Institutional Framework**

Section 98(54) and Section 15(1c) of the Financial Reporting Council of Nigeria (2011) Act stipulate that the audit committee shall be among the three-standing committee of the board and is expected to comprise of non – executives members. Section 15(4) states that the audit committee's functions are to oversee the internal control system regarding finance, accounting and legal compliance; determine the external auditors' fees; review the financial statement and other financial information and ensure compliance with other regulatory requirements. Section 15(5-6) provides for a seven members committee with an elected chairperson, with meetings held monthly with a quorum of three members. Conversely, Section 359(4) of CAMA (1990) stipulates that the audit committee should consist of six members, with an equal number of independent and board members, saddled with the responsibility of appraising and submitting the audit report at the Annual General Meeting (AGM). However, CAMA (2020) Section 404 (3) stipulates that the audit committee should consist of five members, of which two must be non-executive directors, and members are not expected to be remunerated for discharging their duties. Section 404 (5) states that all the audit committee members must be financial literate, with at least one being a member of a professional accounting body recognised by the Act of the national assembly.

CAMA (2004) and (2020) spelt out the audit committee's role as follows: first, it includes determining whether the company's accounting and financial reporting policies adhere to established standards and regulatory obligations. Second, it also states the standards for audit planning and scope, assessing the departmental submissions to the management findings and those of the external auditor. Third, it reviews the efficiency of the company's internal control and accounting systems and makes suggestions to the board regarding the recruitment

and retention, termination, and compensation of the firm's external auditors. Finally, it gives the internal auditor right to examine any corporate activity that may be of interest or concern to the committee.

## **2.2 Audit Efficiency**

Audit efficiency is a measure of audit output to the audit input. The study measures audit input with audit fee, while the audit output is audit delay. The audit assignment is efficient when the audit output is optimised for a specific audit input or when the audit input is minimised to achieve a pre-determined audit output. The study measures audit input with audit fee while the audit output metric is audit delay.

### **2.2.1 Audit fee**

The audit fee is the amount the independent public accountant charges for the audit assignments services rendered (e.g. (Ilaboya et al., 2017, Onaolapo et al., 2017, Simunic, 1980). The audit price is expected to reflect the audit workload; hence, studies posit that the audit price reflects auditors' effort (Blankley et al., 2012; De-Angelo, 1981; Larcker & Richardson, 2004). Furthermore, Simunic (1980) posits that audit price is a function of client size, client complexity, and auditors' attribute. However, following Enron's Accounting scandal, Kenney and Libby (2002) assert that Anderson received 250 per cent of the expected audit fee to compromise audit independence. Studies show that excessive audit fees induce the auditor to compromise audit independence (Choi et al., 2010; Kinney & Libby, 2002; Kraub et al., 2015). Although, studies (Blankley et al., 2012; Frankel et al., 2002; Higgs & Skantz, 2006; Larcker & Richardson, 2004) showed that excessive audit fee indicates an increase in audit effort.

The standing audit committee controls the appointment of the auditor by recommending to the board a reputable audit firm that can increase the audit quality. The audit committee with high due diligence and the entire independent members tend to recommend a reputable auditor to the firms (Abbot & Parker, 2000). The audit committee improve the audit quality by increasing the scope of the audit assignment, which invariably increases the auditor's effort (Simunic & Stein, 1996). The audit committee is expected to discuss the plan and scope of the audit with the independent public accountant (CAMA, 2004; 2020; SOX, 2002) and review the audit assignment processes and coverage in line with the plan. The audit committee recommending reputable auditors and increasing the audit scope is highly likely to support a premium audit fee. Also, the audit committee mitigates the management threat to unduly replace the auditor to compromise the auditor's independence. The audit committee also prevent abnormal positive audit fee, which is not backed by auditors' effort.

### **2.2.2 Audit Delay**

Audit delay is the time difference between the audit report date and the accounting year-end (Bhuryan & D'Costa, 2018; Dyer & Mchugh, 1975 Oussii & Takta, 2018). Dyer & Mchugh (1975) posit that audit report lag is an integral part of the total lag (the difference in days between the accounting year-end and the date the stock exchange market received the published financial report). Dyer & Mchugh (1975) posit that the total lag comprises the preliminary and reporting lag. There is limited empirical evidence on audit committee-audit delay. Studies explored the client-specific attribute (Efobi & Okougbo, 2014; Blankley & MacGregor, 2014; Oraka et al., 2019) and auditor-specific characteristics (Knechel & Sharma, 2012; Lee et al., 2009). The audit committee's role is to enhance financial reporting quality (CAMA, 2004; 2020; SOX 2002), and financial reporting is assumed to be of quality when it is timely released (Oussii & Boulila – Taktak, 2018; Zandi & Abdullah, 2019), especially in emerging economies where the capital market relies heavily on financial reporting timeliness (Owusu-Ansah, 2000). The audit committee mechanism reduces principal-agent conflict information asymmetric, and invariably the audit delay.

## **2.3 Hypothesis Development and Theoretical Framework**

Ika and Ghazali (2012) assert that audit committee composition includes independence, experiences, capability and educational background. However, several institutional frameworks (e.g. CAMA, 2004; 2020; SOX, 2002) indicated that audit committee attributes are financial expertise, independence, meeting and gender diversity.

### **2.3.1 Audit Committee Independence and Audit Efficiency**

The Agency and resource dependence theory advocated that the roles and responsibilities of the audit committee are influenced by its independence (Sultana et al., 2015). Audit committee independence members are made up of outside directors with a negligible financial interest, who are independent of the executive operation functions of the concerned firms. The independent audit committee members provide unbiased judgement and enhance monitoring of the management effectively (Kikha,2014). Researchers, regulators and reformists are interested in the audit committees' independence (Abbott et al., 2003; Blue Ribbon Committee, 1999; CAMA, 2004; 2020, SOX, 2002). Studies posited that audit committee independent members minimise fraudulent and misleading financial reporting when there is a higher proportion of outside directors on the audit committee (Abbott et al., 2000; Bédard *et al.*, 2004; Janin & Piot, 2008). Studies (Aifuwa et al., 2020; Sultana et al., 2015) showed that protracted audit delay reduces as more independent members are included in the committee. Conversely, studies (Chukwu & Nwabochi, 2019; Oussii & Takta, 2018) showed that audit committee independence is

insignificantly related to audit delay. However, based on the expected intent of establishing audit committees by various global financial regulations (Blue Ribbon Committee, 1999; CAMA, 2004; 2020; SOX, 2002), the study posits a negative association between audit committee independence and audit report delay.

**H<sub>1A</sub>:** There is a negative association between audit committee independence and audit reporting delay.

The committee's independent members improve audit quality (Abbott et al., 2003) by disagreeing with the management on various issues to improve financial reporting quality (Baysinger & Butler, 1985). Abbott et al. (2003) and Al-Rassas and Kamardin (2016) assert that firms with more audit independent audit committee members have less likelihood to experience a restatement of earnings. The independent audit committee members normally demand the audit scope to be widened to avoid financial misstatement resulting in higher audit fees (Abbott et al., 2003). Also, there is an onus on the independent member to improve the reliability and credibility of their reputation (Fama & Jensen 1983). Studies (Larasati et al., 2019; Lifschutz, 2010) posited that audit committee independence positively affects audit price. Based on the argument, the study posits that audit committee independence is positively related to audit fees.

The hypothesis stated that;

**H<sub>1B</sub>:** There is a positive relationship between audit committee independence and audit fee

### **2.3.2 Audit Committee Financial Expertise and Audit Efficiency**

The United State Security Exchange Commission (SEC) defines an audit committee expert as a member having a knowledge of the financial reporting processes and procedures, which includes the preparation and examination of financial statements and; a sound understanding of the internal control mechanisms. The financial expert attributes are acquired through formal education in accounting, finance, and related discipline and experience as accounting, financial, and audit officers. Section 407 of the SOX (2002) stipulates that at least one committee member should have financial expertise. The CAMA (2020) Section 404 (5) stipulates that all the audit committee members must be financial experts, and at least a member of the audit committee shall be a member of a professional body established under the Act. The audit committee's financial expert members are expected to improve the integrity of the financial reporting process and oversight function of the board (Hashim & Abdul-Rahman, 2011; Puasa et al., 2014)

Archival literature showed that audit committee members with financial experience understand the risk faced by the external auditor (DeZoort & Salterio, 2001). The agency theory posits that having financial experts on the audit committee enhances the effectiveness of performance (Oussii & Taktak 2018); ensures that external auditors undertake their assignment effectively (Sultana et al., 2014); and improves effective internal control and risk management process (Mcdaniel et al., 2002; Cohen et al., 2013). Cohen et al. (2013) showed that financial expertise positively correlates with the quality of financial reporting (Bedard et al., 2004; Farber, 2005). Studies (Abernathy et al., 2014; Oussii & Taktak, 2018; Sultan et al., 2012) assert that the presence of members with financial expertise in the audit committee reduces audit report delay; based on those mentioned earlier, there;

**H<sub>2A</sub>:** There is a negative association between audit committee financial expertise and audit delay.

The audit committee's financial expert plays a critical role in the appointment and remuneration of external auditors. The audit committee's financial expertise is likely to recommend auditors with a reputation to ensure the integrity of the financial report. The larger audit firms charge higher fees due to reputation, international coverage, and higher litigation risk compared to the small audit firm. Studies (Joshi et al., 2021; Suryanto et al., 2017) showed a positive association between financial experts and audit fees. Hence, based on those mentioned above, the study posits that there is there a positive association between financial experts and audit fees.

**H<sub>2B</sub>:** There is a positive association between audit committee financial expertise and audit fee.

### **2.3.3 Audit Committee Meeting and Audit Efficiency**

The audit committee meeting measures the due diligence of the audit committee. The frequency of the audit committee meeting signals the degree of due diligence (Menon & Williams, 1994). The SOX ACT (2002) and NACD (2000) recommend that the audit committee meet at least four times in a financial period. Also, the audit committee members discuss specific issues relating to financial reporting to the external auditor at the audit committee meeting (BRC report, 1999; Treadway Commission, 1987). The audit committee meetings reduce management's opportunistic behaviour, and fraudulent financial practices, thereby improving the integrity of the reporting earnings ( Bedard et al., 2004; Stewart & Munro, 2007). Studies (Abernathy et al., 2014; Chukwu & Nwabochoi, 2019; Khlif & Samaha, 2016) show that audit committee meeting negatively affects audit report delay. Based on those mentioned earlier, the study postulates the hypothesis that;

**H<sub>3A</sub>:** There is a negative association between audit committee meetings and audit report delay.

The audit committee should have direct communication channels with the external auditors. Regular meetings between the audit committee and external auditors inform and improve the knowledge of the audit committee about relevant accounting and auditing issues. The audit committee members' meetings with the independent auditors create an avenue for the committee to be aware of the challenges of the independent auditors on the audit assignments. Studies indicated that the audit committee's frequent meetings could positively influence audit coverage during the audit process; thus, this can lead to a positive association between audit committee meetings

and audit fees (Abbott, et al., 2003). Studies (Goodwin-Stewart & Kent, 2006; Yatim et al., 2006) indicate that audit committee meetings positively affect audit price. Based on those mentioned above, the study postulates that audit committee meeting is positively associated with audit fees

**H<sub>3B</sub>**: There is a negative association between audit committee meetings and audit report delay.

### **2.3.4 Audit Committee Gender and Audit Report Delay**

Several global corporate governance legislations recommend that the board be gender diverse, by extension to other sub-committees in the corporate firms, such as the audit committee. The agency and dependence theories have divergent views regarding audit committee gender (Sultana et al., 2012). The agency theory advocated that group cohesion improves effectiveness, supporting the social identity and categorisation theory by promoting sex homogeneity in the committee. The agency theory postulation on gender evidenced that sex homogeneity promotes audit committee effectiveness. Conversely, studies (Gold et al., 2009; Owusu & Leventis, 2006; Powell & Anisc, 1997) asserted that the committee members set up in line with the social identity are less effective in the decision-making and monitoring process.

Conversely, resource dependence advocates the need for gender diversity as it broadens the degree of innovation and improves decision-making, ensuring effective monitoring (CAMA, 2020) and conservatism, reducing fraudulent and misleading financial reporting. Given the divergent view of gender diversity, there is a bi-directional association between audit committee gender and audit report delay.

**H<sub>4A</sub>**: There is a significant association between audit committee gender and audit report delay.

The dependence theory posited that females are more conservative, risk-averse and ethically bound than men (Levin et al., 1993; Powell & Anisc, 1997). Based on the dependence theory, an audit committee with more female members tends to pay auditors lower audit fees by improving the internal control mechanism to attain financial reporting quality. However, from the agency theory perspective, audit committee composition with sex homogeneity enhances financial reporting quality by paying a higher audit fee. Based on the argument, the studies postulated a bi-directional relationship between audit committee gender and audit fees. In support of this assertion, studies (Ittonen et al., 2010, Nekhili et al., 2019; Xiang et al., 2015) indicated that the female audit committee members negatively influence audit price

**H<sub>4B</sub>**: There is a significant association between audit committee gender and audit fees.

## **3.0 Methodology.**

### **3.1 Research design**

The study employed a longitudinal research design. The study used a census study sampling technique, as all the DMBs listed on the floor of the NGX, whose stocks are actively traded and their data readily available, were selected as a sample. Secondary data was hand-collected from the audited financial report of variables of interest for the sampled listed DMBs from 2006 to 2020. The rationale for choosing 2006 as the base year resulted from the banking recapitalisation policy to ensure that Nigerian banks are mega in size. Based on these criteria for selecting samples, only 11 DMBs are selected, resulting in 165 firm-year observations.

### **3.2 Measurement of variables**

#### **Dependent variables**

##### **Audit efficiency**

The audit efficiency is measured by two variables, the audit delay and the audit fees.

##### **Audit delay**

The audit delay is measured as the difference in days between the accounting year-end and the date the auditor signs the audit report (Hassan, 2016; Pizzini et al., 2015 Oussii & Takta, 2018).

##### **SEC timely filling**

The study measures the SEC using a dichotomous variable of whether the company published the financial report within three months in line with SEC requirements and zero otherwise in line with studies (Abernathy et al., 2014).

##### **Audit fee**

##### **Actual Audit Fee**

This is the amount the auditor charges for the audit service engagement (Ilaboya, 2017, Onaolapo et al., 2017, Simunic, 1980). the audit fee is measured using the natural logarithm of the audit fee, which is consistent with studies (Ilaboya et al., 2017, Onaolapo et al., 2017, Simunic, 1980).

##### **Abnormal audit fee**

The abnormal audit fee is the deviation of the actual audit fee from the expected audit fee. The study measures abnormal audit fees as the deviation of the actual audit fee from the median audit fee measured yearly, consistent with the studies ( Ilaboya et al., 2017). The positive abnormal audit fee subsists when the actual fee exceeds the standard audit fees, while if the actual audit fee falls short of the expected is regarded as audit fee discounting. Studies have likened the positive abnormal audit to a bribe, while other studies indicated that it motivates

premium service or increases audit effort.

### Independent variable

The primary variables of interest of the study are four audit characteristics; these include audit committee financial expertise (ACFE), measured as the number of financial expertise members to the total audit committee, consistent with studies (Krishnan & Visvanathan, 2008). The audit committee independence (ACID) is surrogated by the number of independent directors in the entire audit committee members, consistent with (Aifuwa et al., 2020; Firnanti & Karmudiandri, 2020; Saidu et al., 2020; Zandi & Abdullah, 2019). The audit committee meetings measure the committee's due diligence expressed as the frequency of meetings held by the committee members in a year, which is in line with studies (Akinyele & Aduwo, 2019; Oussii & Takta, 2018). The audit committee's female members are measured by the number of women on the board, consistent with studies (Nekhili et al., 2019; Zaitul & Ilona, 2019).

### Control variable

The study includes audit attributes such as audit tenure in the model. Control variables such as client-specific and audit specific are included in the model. Client-specific characteristics such as profitability, leverage, and firm size are included as control variables. The profitability is measured by return on asset (ROA), consistent with studies (Abdillah et al., 2019; Oussii & Takta, 2018). Leverage is measured as a ratio between debt and total assets in tandem with studies (Harjoto et al., 2015). Firm size is measured as the natural logarithms value of the total assets in line with studies (Ika & Ghazali, 2010; Saidu & Aifuwa, 2020).

### 3.3 Specification of Model

To estimate the audit committee characteristics and efficiency, the study validated the sets of hypotheses postulated using two models. The first model is related to the association between audit committee effectiveness and audit fee; the second is the association between audit committee effectiveness and audit delay.

For audit committee effectiveness and audit fee association, the model is given as:

$$afee1_{it} = \beta_0 + \beta_1 acf_{it} + \beta_2 acid_{it} + \beta_3 acm_{it} + \beta_4 acfe_{it} + \beta_5 roa_{it} + \beta_6 lev_{it} + \beta_7 lnta_{it} + \beta_8 audten_{it} + e_{it} \quad 1$$

$$afee_{it} = \beta_0 + \beta_1 acf_{it} + \beta_2 acid_{it} + \beta_3 acm_{it} + \beta_4 acfe_{it} + \beta_5 roa_{it} + \beta_6 lev_{it} + \beta_7 lnta_{it} + \beta_8 audten_{it} + e_{it} \quad 2$$

$$audle_{it} = \beta_0 + \beta_1 acf_{it} + \beta_2 acid_{it} + \beta_3 acm_{it} + \beta_4 acfe_{it} + \beta_5 roa_{it} + \beta_6 lev_{it} + \beta_7 lnta_{it} + \beta_8 audten_{it} + e_{it} \quad 3$$

$$audle_{it} = \beta_0 + \beta_1 acf_{it} + \beta_2 acid_{it} + \beta_3 acm_{it} + \beta_4 acfe_{it} + \beta_5 roa_{it} + \beta_6 lev_{it} + \beta_7 lnta_{it} + \beta_8 audten_{it} + e_{it} \quad 4$$

*Afee1* is the actual audit fee, *afee11* is the abnormal audit fee, *audle* connotes the audit delay, *audle11* is the SEC timely. *ACF* is Audit Committee Female Member *ACID* is Audit Committee Independence *ACM* is Audit Committee Meeting *ACFE* is Audit Committee Financial Expertise *ROA* is Return on Asset *LEV* is Leverage *LNTA* is Company's size *AUDTEN* is Audit Tenure. While the residual term is measured by *e*  
 Models 2 and 4 are used as a robustness check.

## 4.0 Result and Interpretations

### 4.1 Descriptive Statistics and Correlation Analysis.

Table 1 depicts the statistical description of the variables used in the model for the 165 firm-year observations. In respect of audit delay (AUDLE), the average values are mean=149.6 days and median =170 days, indicating that the banks operating in the Nigerian environment delayed in the communication of the financial statement to the general public from 2006-2020, as the average exceeds the deadline limit of 90 days. The result of the audit delay is consistent with Nigerian studies (Eze & Nkak, 2020; Modugu et al., 2012). The maximum and minimum values of the audit delay of 252 days and 56 days showed a high variation in the filing of the financial reports supported by a standard deviation of 24.7, indicating that the variable is highly volatile. The SEC timelier (AUDLEI), a dichotomous variable, has a mean of 0.56, depicting that approximately 56 per cent of the sampled listed banks issued their financial statement within the SEC deadline period.

The audit fee has a mean value of 12.2 and a median of 12.0; the values shown in Table 1 only have economic importance through their exponential value of ₦198,789,000 and ₦ 162,754,000. The maximum and minimum values of the natural logarithm of the audit fees were 14 and 10, respectively, indicating less variation in the actual audit fee paid by the DMBs to the statutory auditors. The rationale could be that virtually all the banks in Nigeria patronise the Big four audit firms; the assertion is in line with studies (Ayoola et al., 2019; Oraka et al., 2019).

The audit committee characteristics used in the study are audit committee financial expertise (ACF), audit committee independence (ACID), audit meeting (ACM) and female audit members (ACFE). The financial audit expertise for the 165 firm-year observations has an average of mean= 2.2 and median= 2.0; these statistics showed an average of 2 audit committee members were financial experts. The minimum value of the audit

financial expert, as shown in Table 1, indicates that all the Listed DMBs complied with the CAMA regulation of at least one financial expert in the audit committee before CAMA 2020. However, the CAMA 2020 indicated that all the audit committee members must be financial literate. The maximum value of 6 shows that in some companies, all the audit committee members are financially literate.

The audit committee meeting has an average of 4.6 meetings per year, in line with the regulation of at least a meeting every quarter of the year. Furthermore, Table 2 showed that the audit committee independence (ACID) has an average of 2.5 members, which is approximately the 3 members recommended by CAMA 2004. The minimum value of the audit committee meeting was a frequency of two, indicating that some banks defaulted, especially in the Covid\_19 period. Finally, the Nigerian banks had an average of 1.9 female members in the audit committee, with a minimum of zero members as there was no regulation regarding the gender composition of the audit committee.

Finally, Table 1 revealed the descriptive statistics of the control variables such as bank-specific characteristics such as capital structure (LEV) and firm size (LNTA); also auditor specific characteristics of auditor's tenure (AUDTEN). The capital structure (Lev) mean of 0.8 indicates that the Nigerian Banks are highly geared. The audit tenure mean =4.4 is an indication that an auditor tenure is medium-term in nature with an average interval of 4-5 years

Table 3 depicts the pairwise correlation of the variables employed in the audit committee characteristics and audit efficiency. Based on the pairwise association results, the model is free from the problem of multicollinearity, evidenced by the highest pairwise correlation value of 0.46 between audit committee independence member (ACID) and audit committee meeting (ACM), which is significant at 5 per cent. However, the pairwise association has economic importance other than identifying the degree of multicollinearity. For instance, the firm size measured by LNTA was negatively associated with audit delay (AUDLE); this indicates that large firms are timelier in publishing their financial report. The firm size (LNTA) was positively associated with audit fee (AFEE), indicating that a larger firm pays a higher statutory audit fee than a small one, possibly due to the higher volume of transactions leading to potential litigation risk from the external stakeholders. Firm size is also positively related to audit committee characteristics such as audit committee financial expertise (ACF), audit committee independence (ACID), audit committee meeting (ACM), and audit committee female members (ACFE); this association is an indication that large firms' compliance with the corporate code of conduct in Nigeria is high. The profitability (ROA) has a positive association with audit delay (AUDLE) and audit fee (AFEE). The statistics indicated that the auditors spent more audit process time in a firm with high returns to ascertain if the profit is not manipulated, which invariably commands higher audit fees.

**Table 1**

Var	Mean	Med	Max	Min	Std.D	Obs
audle	149.6	170.0	252.0	56.0	24.7	165
audle_1	0.56	1.00	1.00	0.00	0.24	165
afee	12.2	12.0	14.0	10.0	1.0	165
acf	1.9	2.0	6.0	0.0	1.5	165
acid	2.5	2.0	3.0	2.0	1.7	165
acm	4.6	4.0	11.0	2.0	2.9	165
acfe	2.2	2.0	4.0	0.0	2.8	165
roa	2.5	0.0	3.86	-0.5	24.5	165
lev	0.8	0.9	1.4	0.0	0.3	165
lnta	19.7	20.0	30.0	11.0	4.0	165
audten	4.4	4.0	11.0	1.0	2.7	165

**Table 2**

Corr Prob	<i>audle</i>	<i>afee</i>	<i>acf</i>	<i>acid</i>	<i>acm</i>	<i>acfe</i>	<i>roa</i>	<i>lev</i>	<i>lnta</i>	<i>audten</i>	<i>vif</i>
<i>audle</i>	1.00 <b>0.00</b>										1.55
<i>afee</i>	0.02 <b>0.08*</b>	1.00 <b>0.00</b>									2.33
<i>acf</i>	-0.06 <b>0.05**</b>	0.34 <b>0***</b>	1.00 <b>0.00</b>								0.34
<i>acid</i>	-0.06 <b>0.05**</b>	0.00 <b>0.96</b>	0.31 <b>0***</b>	1.00 <b>0.00</b>							1.25
<i>acm</i>	0.03 <b>0.07*</b>	0.11 <b>0.17</b>	0.43 <b>0***</b>	0.46 <b>0***</b>	1.00 <b>0.00</b>						1.43
<i>acfe</i>	-0.20 <b>0.01***</b>	0.04 <b>0.58</b>	0.30 <b>0***</b>	-0.02 <b>0.79</b>	0.14 <b>0.07*</b>	1.00 <b>0.00</b>					3.12
<i>roa</i>	0.02 <b>0.77</b>	0.04 <b>0.59</b>	0.20 <b>0.01**</b>	-0.07 <b>0.35</b>	0.08 <b>0.29</b>	0.23 <b>0***</b>	1.00 <b>0.00</b>				1.13
<i>lev</i>	-0.12 <b>0.14</b>	0.28 <b>0***</b>	0.09 <b>0.24</b>	0.21 <b>0.01***</b>	0.33 <b>0***</b>	0.01 <b>0.92</b>	-0.20 <b>0.01***</b>	1.00 <b>0.00</b>			1.25
<i>lnta</i>	-0.08 <b>0.03**</b>	0.21 <b>0.01***</b>	0.12 <b>0.13</b>	0.11 <b>0.18</b>	0.25 <b>0***</b>	0.11 <b>0.16</b>	0.14 <b>0.07*</b>	0.11 <b>0.18</b>	1.00 <b>0.00</b>		1.23
<i>audten</i>	0.00 <b>0.02**</b>	0.29 <b>0***</b>	0.17 <b>0.03**</b>	0.03 <b>0.70</b>	0.15 <b>0.05*</b>	0.13 <b>0.09*</b>	0.12 <b>0.12</b>	0.02 <b>0.76</b>	-0.04 <b>0.58</b>	1.00	1.14

#### 4.2 Result and Discussion of Findings

Table 3 indicates the audit committee characteristics and audit efficiency association of the Nigerian listed DMBs. The data collected were estimated using the fixed-effect method. The results of the estimate were presented in columns I-IV. Columns I and II measured the audit efficiency using the input perspective of the actual audit fee and abnormal audit fee; while in columns III and IV the dependent variable, audit efficiency, was proxy from the output perspective using the audit delay and SEC timely filing. The result showed that audit committee characteristics are important in determining audit efficiency as the audit committee variables were significantly associated with audit efficiency.

The association of audit committee characteristics and audit fee using the actual audit fee as efficiency metrics showed that audit committee financial expertise members (ACF) and meeting (ACM) were positive and significant at 5 per cent with actual audit fee with a statistics of (coff= 0.28, t= **13.04**) and (coff= 0.14, t= **10.03**) respectively, ( as shown in column 1 in Table 3). The result is consistent with the studies (Awinbugri & Prince, 2019; Yasin & Nelson, 2012) and contradicted studies (Khudhair et al., 2018; Stewart & Munro, 2007). The result indicates that the audit committee members of the Listed DMB exhibited due diligence in determining the audit fees, hence, agreed to pay a higher audit fee to the engaged auditors. The higher audit fee could result from the DMB's engaging an industry specialist auditor with a high reputation and experience.

The association of audit committee financial expertise and audit fee is positively associated with audit fees, as evidenced by (coff= 0.10, t=**7.08**). The positive association of the audit financial expertise and audit fee indicates that the financial expertise members improve the financial reporting quality and timeliness by employing a reputable auditor who charges a high audit fee. The result is consistent with the studies (Joshi et al., 2021; Suryanto et al., 2017); however, it converses with studies (Salawu et al., 2017).

Furthermore, column I of Table 4 indicated that audit committee independence (ACID) is positively associated with audit with a statistic of (coff= 0.08, t= **4.65**). The result indicates that outside directors are painstaking in the recommendation of appointment and remuneration of the external auditors with higher reputations. The result is tandem with studies (Abbott, et al., 2003; Al-Hajaya et al., 2019; Larasati et al., 2019;



Lifschutz et al, 2010)

The female members (ACFE) were negatively associated with the audit fee at a 5 per cent level of significance, evidenced by statistics of (coeff= -0.10, t= **-7.08**). The finding is in line with the dependence theory as the female members are conservative in nature; the result is in tandem with studies (Ittonen et al., 2010; Nekhili et al., 2020; Xiang et al., 2015) but contradicted (Miglani & Ahmed, 2019)

Moreover, Table 4 shows the association between audit committee effectiveness and audit efficiency measured by audit delay in columns III and IV. The adjusted R square of 0.56 evidenced that the explanatory power of the regressors used in the model was about 56 per cent, indicating that the regressors in the model explained about 56 per cent of the variation of audit delay. Also, the F statistics with a value of 150.32 indicated that the model overall is significant. The result showed that the variables of audit committee characteristics such as audit committee financial expertise (ACF), audit committee independence members (ACID), audit committee meeting (ACM) and audit committee female members (ACFE) were negative and significantly associated with audit delay.

The study found that audit committee financial expertise reduces the protracted audit delay with statistics of (coeff= -0.10, t= **-2.18**). The result is consistent with studies (Abernathy et al., 2014; Oussii & Taktak, 2018; Sultan et al., 2012). The inverse relationship between the audit committee's financial expertise and audit delay is an indication that the financial experts perform an effective oversight function and have a sound knowledge of the audit process by establishing robust internal control mechanisms which invariably assist in reducing the time of completing the audit assignment.

The audit committee independence members with a statistic of (coeff= -2.11, t= **-3.78**) have a negative association with audit delay. The result is an indication that the audit reports are communicated on time to the external stakeholders as the number of independent audit committee members increases; this connoted that there is less likelihood of management being involved in creating an information gap to engage in opportunistic behaviour with an increase in the number of the independent audit committee members. The result is in line with the studies of (Aifuwa et al., 2020; Sultana et al., 2015).

Furthermore, the result in column III indicated that the audit committee meeting reduces the protracted audit delay, evidenced by statistics of (coeff= -2.96, t= **-8.28**). The result is in line with the hypothesis. It supports the position that audit committee meetings provide an avenue for the statutory auditor to discuss the challenges and the probable solution of the audit, which invariably reduces the time of communication. The result is in line with the study of (Khlif & Samaha, 2016), which posited that audit committee meeting enhances internal control robustness.

The audit female committee member has a negative and significant association with the financial reporting timeliness with a statistics of (coeff= -2.63, t= **-6.77**). The result indicates that an increase in the female audit committee proportion increases the independent and the monitoring role of the audit committee members, which invariably reduces the time of releasing the audit report consistent with studies (Gold et al., 2009; Owusu & Leventis, 2006; Powell & Anise, 1997).

### **Robustness Check**

The study carried out a robustness check to ascertain the consistency of the result of the estimate by substituting the actual audit fee with the abnormal audit fee, while the audit delay was substituted by the SEC's earlier filing deadline. The results are presented in columns II and IV in Table 4.

The robustness check of audit committee characteristics-abnormal audit fee association result is presented in column II. The result showed that the model explanatory power is high with F-statistics of a value of 189.01 significance at one per cent. The adjusted R square has a value of 0.66, indicating that the variation in the explained variable is 66 per cent accounted for by the regressors in the model. The result showed that audit committee financial expertise and meeting have a positive and significant association with audit fees at 5 per cent with a coefficient and t-statistics of (coeff= 0.21, t= **10.06**) and ((coeff= 0.02, t= **2.33**). Also, the audit committee independence (ACID), was positive and statistical significant at 5 per cent with a coefficient and t-statistics of (coeff= 0.09, t= **6.07**). The audit meeting (ACM) and female member (ACFE) were negative and statistical significant at 5 per cent with a coefficient and t-statistics of (coeff= 0.09, t= **6.07**), (coeff= -0.03, t= **-4.61**). The result validated the earlier estimate as the two results' output was statistically indifferent to each other.

Column IV of the Table showed the result of the estimate of audit committee characteristics and audit delay. The audit delay was substituted with the SEC's timely filing. The result in Table 4, column IV indicated that the coefficient and t-statistics of the audit committee characteristics were statistically the same with using the audit delay surrogate, as shown in column II. Hence, the estimates from the models are validated by the result of the additional surrogate of the audit efficiency of abnormal audit fees and timely SEC filing

**Table 4**

Dep	Variable	1	2	3	4
		AFEE1	AFEE11	AUDLE1	AUDLE11
		Coefficient	Coefficient	Coefficient	Coefficient
		<i>t-statistic</i>	<i>t-statistic</i>	<i>t-statistic</i>	<i>t-statistic</i>
<b>Ind</b>	acf	0.28 <b>13.04***</b>	0.21 <b>10.06***</b>	-0.10 <b>-0.28</b>	0.00 <b>1.79*</b>
	acid	0.08 <b>4.65***</b>	0.09 <b>6.07***</b>	-2.11 <b>-3.78***</b>	-0.01 <b>-4.81***</b>
	acm	0.14 <b>10.03***</b>	0.02 <b>2.33**</b>	-2.96 <b>-8.28***</b>	-0.01 <b>7.25***</b>
	acfe	0.10 <b>7.08***</b>	0.03 <b>4.61***</b>	-2.63 <b>-6.77***</b>	-0.01 <b>-5.73***</b>
<b>Contl</b>	roa	0.01 <b>4.64***</b>	0.00 <b>-2.49**</b>	-0.09 <b>-3.49***</b>	-0.01 <b>-1.50</b>
	lev	2.16 <b>13.41***</b>	0.14 <b>1.53</b>	-4.75 <b>-2.05**</b>	0.08 <b>7.8***</b>
	lnta	0.44 <b>55.03***</b>	-0.02 <b>-4.65***</b>	-2.99 <b>35.32***</b>	-0.00 <b>-3.2***</b>
	audten	0.19 <b>12.97***</b>	0.08 <b>9.09***</b>	1.31 <b>4.77***</b>	0.01 <b>6.66***</b>
	R-sq	0.90	0.67	0.56	0.48
	Adj R-sq	0.89	0.66	0.54	0.45
	F-stat	200.34	189.01	150.32	115.32
	prob	0.00	0.00	0.00	0.00

Source: Authors Computation (2022)

Where ACF is Audit Committee Female Member ACID is Audit Committee Independence ACM is Audit Committee Meeting ACFE is Audit Committee Financial Expertise ROA is Return on Asset LEV is Leverage LNTA is Company's size AUDTEN is Audit Tenure. Dep is the Dependent Variable, Ind is the Independent Variable, and Contl represents the Control Variables.

Note \*\*\*, \*\* and\* indicated level of significant at 1%,5%and10% respectively,. The t-statistics are in bold and italics

## 5.0 Conclusion and Recommendations

The study investigated the effect of audit committee characteristics on the audit efficiency in the Nigerian listed Deposit Money banks. The audit efficiency is proxy by audit fee (Using the actual audit fee and abnormal audit fee) and audit delay surrogated by (audit delay and meeting the Stock exchange deadline);. In contrast, audit committee characteristics are measured by audit committee size, audit committee independence, audit committee meeting and audit committee gender. A sample of 11 DMBs was considered to have satisfied the criteria for selecting the study's sample, resulting in 165 firm-year observations. The study employed a secondary source of data, and the ordinary least square method of the fixed-effect method was used in estimating the model. The study contributed to knowledge by adding to the limited archival literature on the audit committee characteristics and audit efficiency, measuring the efficiency from the input and the output perspective.

The study concluded that audit committee meeting plays a significant role in hiring a reputable auditor at a premium price, as the due diligence process is followed, reducing the protracted audit delay. Also, the audit committee's financial expertise members play a vital role in appointing reputable auditors and using their financial experience in performing the oversight function leading to the timeliness of financial reporting. The audit committee's independence and female members help negotiate audit prices and ensure the timing of the financial reporting. The result indicates that female audit members are conservative, which aligns with the resource dependence theory.

The study recommends that the board be diverse to ensure the effective utilisation of the company resources

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