# Effects of Audit Committee Financial Expertise on Audit Quality of Consumer Goods Companies in Nigeria

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## Abstract

*Audit committee have a responsibility to ensure that the quality, reliability, credibility of the financial report as well as auditor's independence from their clients are not compromised through poor regulation and supervision of the auditing practice, Provision of non- audit services to the client, auditor's personal interest in the client's business among others. The purpose of this study is to investigate the effect of audit committee financial expertise on audit quality of consumer goods companies listed on the Nigeria stock exchange for the period of thirteen (13) years from 2008 to 2020. This study empirically reviewed several articles of previous related research and also reviewed a number of theories out of which resource dependence theory is adopted for this study. The study adopted ex-post facto research design and data was analyzed using panel regression techniques. Secondary data were sourced from the annual report of consumer goods companies. The independent variable is audit committee financial expertisewhile the dependent variable is audit quality proxied by audit report lag. The estimated statistical result shows that Audit committee financial expertise has a positive and significant impact on the Audit report lag, showing that the probability P-value is 0.037, which makes the null hypothesis to be rejected. Thereby this implies that the effect of Audit committee financial expertise on Audit quality of consumer goods companies using ordinary least square shows a positive and significant relationship and It is clear from the analysis that increase in audit committee with financial expertise will reduce audit report lag. The study therefore recommends that companies especially consumer goods companies should have more audit committee members with financial expertise so as to ensure timeliness of the annual financial encourage investors and other users of the financial report to rely on the published report.*

Keywords: Audit committee, Audit committee financial expertise, Audit quality, Audit report lag

## INTRODUCTION

The audit committee is a sub-committee within the corporate governance structure that is focused on ensuring the quality of annual financial returns, as well as the internal control mechanism of the organization. According to the Cadbury Committee (1992), an audit committee is an internal control and important governance mechanism that would reduce the agency gap, protecting the interests of the shareholders from management's opportunism. This monitoring role played by the audit committee over management is expected to enhance the audit quality and hence, improve integrity of financial reporting ( Cohen, krisnamoorty & wright, 2004; Beasley, 2009; Sulaiman, 2017), and firm's financial performance ( Baxter &Cotter, 2009; Laux & Laux, 2009; Caskey, 2010). One of the ways the audit committee ensures investors' protection and transparent financial reporting is through monitoring and managing the relationship with external auditors (Safari, 2017 &Ali, 2018), in other to reduce the probability of providing an improper opinion (Abbott, 2003). Importantly, the audit committee is responsible for addressing the key risks inherent in the external audit process, including appointing and settling auditors' fees (Lin, 2018). An effective audit committee will demand a high-profile audit agent, additional audit tasks and missions, which implies better audit quality (Lennox & Park, 2007 and Lin, 2018). Audit quality has been defined as the auditors' ability to discover the material misstatement and reports them ( De Angelo, 1981). Audit quality indirectly implies necessary competent and professional behavior along the auditing process as well as auditor's independence and objectivity to assure that the audit report reflect a true and fair auditor's opinion. Chadegani (2011) noted that Palmrose's define audit quality has the level of assurance, knowing full well that auditing as a service is meant to provide reasonable assurance.

Achieving quality Audit depends on the role that the audit committee plays in supporting the quality of financial reporting of companies which is an important part of the regulatory, supervisory, infrastructure and thus an activity of significant public interest (Heil 2012). Several individuals and groups - both internal and external, have shown interest in the quality of audited financial information (Heil, 2012). The financial statement audit is a monitoring mechanism that helps reduce information asymmetry and protect the interests of the various stakeholders by providing reasonable assurance that the management's financial statements are free from material misstatements. The societal role of an auditor should be a key contribution to financial performance, in terms of reducing the risks of significant misstatements and by ensuring that the financial statements are elaborated according to preset rules and regulations. Lowering risks on misstatements, increase confidence in capital markets, which in turn lowers the cost of capital for firms (Heil, 2012; Watts & Zimmerman, 1986). Audits performed in accordance with high quality auditing standards can promote the implementation of accounting standards by reporting entities and help ensure that their financial statements are reliable, transparent and useful. Sound audits can help reinforce strong corporate governance, risk management and internal control of firms, thus contributing to financial performance (Internal Audits Board, 2011). The statutory audit can reinforce confidence because auditors are expected to provide an external, objective opinion on the preparation and presentation of financial statements.

The inability of an auditor to gather sufficient and appropriate audit evidence and failure to identify material misstatement in the financial report is perhaps the most important factor to be blamed for misleading financial information users and the non-reliability of the audited report. Concerns have emerged about reduced audit quality; Studies such as Giulia & Andrea, 2012, Huang, Zhang, Shen, & Xie, 2013, Ogoun& Obara, 2013 and Ogoun&Atagboro, 2019have raised questions about the independence of some organization and suggested that lack of concentration is lowering the quality of audit. Many companies suffered corporate collapse due to poor audit quality. Most times poor audit quality is due to lack of appropriate and sufficient audit evidence as auditor are sometimes restricted by management to access some document when caring out audit work and all the auditor has to work with are document the management of the organization has made available. The role of audit committee is to ensure the quality, reliable and credibility of the financial report and the auditor's independence from their clients as these can be compromised through poor regulation and supervision of the auditing practice, provision of non- audit services to the client, auditor's personal interest in the client's business among others. Thus effective and perceived qualities are necessary for auditing to produce beneficial effects as a monitoring device. This study seeks to answer the questions about the independence of some organization by establishing the fact that theintegrity of audit quality can be improved through audit committee financial expertise. This study is carried out in the consumer goods sector as no research has been carried out using the choice of variable selected by this study in the consumer goods sector, also this study covered a period of thirteen (13) years for a broader coverage. The objective of the study is to examine the relationship between audit committee financial expertise and audit report lag of consumer goods companies in Nigeria. To address this research objective, the following null hypothesis is formulated.

$H_o$: Audit committee financial expertise has no significant effect on the audit quality of consumer goods companies in Nigeria.

## LITERATURE REVIEW

### Conceptual Framework

#### Audit committee

The audit committee is an essential part of the governance structure that is saddled with the affairs of financial reporting and disclosure. The audit committee is a sub-committee within the Corporate Governance precincts that is focused on ensuring the quality of annual returned financials, as well as the internal control mechanism of the organization. The audit committee has the responsibility to appoint and replace auditors; they decide the pay of the auditor and ensure that the auditors get the required document to be audited so as to get the quality of what is being paid for. Furthermore, the empirically established agency conflict construct, as manifested in the various instances of corporate scandals, ignited the Corporate Governance construct (which the audit committee is a part) as an instrument for safeguarding the public proprietary form of business ownership, given the massive dispersion of both existing and potential shareholders. The works of (Beasley, Carcello, Hermanson & Lapides, 2000; Agrawal, & Chadha, 2005; Abdullah, Ismail, &Jamaluddin, 2008; Lawrence, 2009; Law, 2011; Akeel & Denis, 2012; Giulia & Andrea, 2012; Huang, Zhang, Shen, and Xie, 2013; Ogoun&Obara, 2013; Ogoun & Atagboro, 2019 ; Ogoun & Woyengibuomo, 2019), amongst several others, signposts the evidence and menace of this corporate vice.

In order to fulfill this responsibility effectively, audit committees are required to review the audit program and ensure that its scope and the allocated resources are acceptable. Further, the audit committee also has a responsibility to review the results or outcomes of the audit program and activities, including the extent to which such audit activities are coordinated with the audit program. It can be argued that the greater the extent of audit committee review of the audit program and processes, the greater the probability of identifying any weaknesses in the audit activities, and consequently of improving the internal monitoring function. Prior studies (Goodwin, 2003, Raghunandan, 2001 and Scarbrough 1998) suggest that the extent of the interaction between audit committees and auditing particularly the review of into audit's involvement in risk management and other programs is important in supporting the status of audit quality.

#### Audit Committee Financial Expertise

Knowledge and experience in accounting and finance are viewed as being among the important elements for audit committee effectiveness (DeZoort, 1998; Kalbers & Fogarthy, 1993). Many prior studies on audit committee financial expertise are overwhelmed by studies performed in developed countries, such as the US, UK and Australia (Engel, Hayes, and Wang, 2010; Krishnan and Visvanathan, 2009; Carcello, Hollingsworth, & Neal, 2006; Defond, Hann, &Hu, 2005). In Malaysia, most prior literature (Yatim, Kent, & Clarkson, 2006) examines financial expertise based on the requirements of Bursa Malaysia Listing requirements, which mandate at least one audit committee member must be a member of the Malaysian Institute of Accountants (MIA). Consistent with prior literature (Nelson, 2010; Carcello, Hermanson, Neal, & Riley, 2002; Carcello, Hollingsworth, & Neal, 2006; Kim, Aldrich, & Keister, 2006) , this study includes two criteria as the variables of interest; the audit committee managerial experience and academic qualification in terms of postgraduate qualification. Experience in accounting, auditing and finance, and professionally qualified or certified accountants, are the important characteristics to audit committee and internal audit to be considered as an expert (Carcello et al., 2002).

In addition, these characteristic is essential to further enhance the effectiveness of the audit committee. The Blue Ribbon Committee (1999) recommended that the audit committee should include at least one member with accounting or finance expertise. Financial knowledge is particularly essential since many oversight judgments are subjective and such knowledge will help the audit committee in making its financial decision. Yatim et al. (2006) documented that an audit committee with accounting affiliation is significantly and positively associated with audit fees. Further, Nelson (2010) proposed academic qualification, i.e. postgraduate qualifications, as one of the characteristics of audit committees that can enhance its effectiveness. Kim et al. (2006) suggested that formal education allows individuals to gain knowledge and skills, and earn credentials valued by others in the business community. This study measure audit committee financial expertise as those who have qualifications in accounting and finance and shareholders among the committee.

**Audit quality**

Audit quality has been defined by DeAngelo (1981) as the joint probability assessed by the market that a breach will be discovered in the accounting system of the client based on the audit procedures and the technological capabilities of the auditor, and that this breach will be duly reported by the given auditor. An independent verification in the form of an unqualified opinion on the firm’s financial data with consideration of quality is the output of audit quality. Audit quality has been divided into two categories; one of them is functional audit quality and the other technical audit quality (Dassen, 1995). Functional audit quality refers to the degree to which the expectations of stakeholders’ are met in terms of the processes involved in conducting the audit engagement and then communicating the results of the audit. Users of audit services, comprising of audits and the 3rd party beneficiaries such as bankers and stakeholders, for the assessment of audit quality base their assessments on the reliability and responsiveness of the auditor. Technical audit quality refers to the degree to which the expectations of stakeholders’ are met in terms of the success an audit engagement to detect and then report any errors or irregularities regarding the financial reports of an audited firm (Dassen, 1995).

**Audit Report Lag**

Timeliness of financial report has been viewed as an essential qualitative characteristic of financial information. Azubike & Aggreh (2014) viewed timeliness of financial statements as the period it takes the company to present its financial reports before the shareholders in the Annual General Meeting after the closing date of such company. In line with this International Accounting Standard Board (IASB 2008) posit that timeliness is the period that the information is made available to the users to make their decision. Thus, the increasing need for financial reports to be presented to the shareholders and other users on time has spurred the national regulatory bodies to recognize the need to set a maximum frame that the audited reports should be made. Timely financial report simply refers to the timeliness of the release of audit certified annual financial returns. The number of days it takes to complete an external audit on the annual returns of a firm at the end of a financial and to publish the information. Late information is as good as no information, because its usefulness for the decision scenario has elapsed.

Timeliness of financial reporting disclosure is a main component for accounting information quality. As stated by Financial Accounting Standards Board (FASB) in the Statement of Financial Accounting Concepts No.8, timeliness is considered as one of the fundamental qualitative characteristics of financial information quality and usefulness (FASB, 2010) Timeliness is deemed as a mirror that reflects the quality and reliability of financial information and its transparency (Ram & Hassan, 2017), and promotes equality between stockholders to access financial information without the need to look for other sources ( Owusu-Ansah, 2000). The annual audit length has been specified as one of the most significant factors determining the timeliness of financial reporting by companies (Knechel& Sharma, 2012; Abernathy, Barnes, Stefaniak&Weisbarth, 2017), as required by regulations in several countries, companies are only allowed to issue their financial reporting after certification of external auditor and release the audit report. Audit lag is identified as the number of days from the end of company's fiscal year to the date of audit report (Swanson &Zhang, 2018). Some research has shown that audit report lag is critical because it is related to public’s confidence in the audited financial reports (Salleh, Baatwah&Ahmad, 2017). Delay of audit report jeopardizes the quality of accounting information as it is not giving timely information to shareholders.

Late disclosure of the auditor's opinion about the fairness of financial information results in increase asymmetric information and uncertainty in investment decisions (Afify, 2009; Mande & Son, 2011).

**Empirical Review**

Ogoun, Edoumiekumo andNkak (2020) investigated audit committee attributes and audit report lag of quoted industrial firms in Nigeria. This study adopted the ex-post facto design in which secondary data were collected from the NSE fact book and financial reports published by selected quoted companies covering eight (8) years from (2012- 2019). Descriptive statistics, Ordinary Least Square (OLS), and Housman test were adopted for the data analysis. From the analytical output, it was observed that audit committee taken as a whole, does not necessarily facilitate speed in the release of audit certified annual financials of firms in this sector. However, decomposing the analysis via a variable silos model reveals that the number of financial experts on the committee and non-executive directors contributes considerably to ensuring the timeliness of audit certified annual financial returns. The study recommended that all members of the audit committee should be non-executive directors with financial expertise. ThankGod and Zukbee (2020) investigated the relationship between corporate audit mechanisms and financial reporting quality of listed consumer goods manufacturing companies in Nigeria. The study utilized a sample of thirteen listed manufacturing companies in the consumer goods sector for a period of seven years (2012-2018). The Ordinary Least Square multiple regression technique was employed in the analysis of a pool of panel data obtained from the published annual reports of the sampled firms. The study found that external audit attribute (audit fee) and audit committee attribute ( membership tenure) have significant relationship with financial reporting quality (earnings management, reporting timeliness, accounting conservatism and value relevance) of the sampled firms at 95% confidence level. The implication is that variation in reporting quality is significantly predicted by the audit mechanisms. it was recommended among others, that compensation for external auditors should include upward review of the audit fee annually and the provision of necessary resources both financial and otherwise to enhance quality financial reporting.

Al-Hajaya, (2019) examined the effect of the characteristics of the audit committee, as a tool of corporate governance, on audit quality (as measured by audit fees and type of audit agent) among insurance companies listed on the Amman Stock Exchange, Jordan. The empirical study was conducted on data of all 23 listed insurance companies for the period 2013-2017, resulting in 115 observations. Findings of multivariate analyses indicate that companies with larger audit committees and containing a high proportion of non-executive and independent directors are more likely to incur higher audit fees and hire big four audit agents, signaling their prominent level of audit quality. In contrast, more diligent audit committees are more likely to select non-big four auditing firms requiring lower audit fees. The study recommends that regulators and policy makers in the Middle East and Arab region, particularly should set guidelines for effective audit committee characteristics. Mustafa, Che-Ahmad and Chandren, (2018) illustrated how control-ownership wedge impacts the monitoring role of the corporate board through the quality of audit services in Turkey. Logistic regression and feasible generalized least squares (FGLS) were used for regression estimations. The results indicate that board demographics, cognitive and structural diversity of board of directors, audit committee characteristics and audit quality are complementary and control-ownership wedge weakens the relationship between them which is an unfavorable outcome for minority shareholders. Thus, this study recommend that regulators should increase law enforcement to enhance good corporate governance in Turkey to accommodate the unique features of wedge firms and provide a protected environment for minority shareholder.

Asiriuwa, Aronmwa, Uwuigbe and Uwuigbe (2017) examined audit committee attributes and audit quality with emphasis on the specific requirements of the 2011 SEC code in Nigeria. The study applied the deductive approach via the expost facto research design and the Binary probit regression model in analyzing the various hypotheses put forward in study. Data used for the study were gathered for 150 firm-year observations from the annual reports of quoted companies on the floor of the Nigerian Stock Exchange. Findings from the study revealed that audit committee size, frequency of meetings, number of expertise and overall effectiveness all have a positive relationship with audit quality. However, only size and overall effectiveness was significant in their relationship. The study recommends that since the significant positive nature of audit committee effectiveness show that four attributes jointly account for effectiveness, firms are encouraged to establish audit committees that have all these attributes. Furthermore, the requirement of having a 6-member audit committee is sound and empirically proven to aid audit quality. Therefore, firms yet to subscribe to these should hasten up, while sanctions should be made for firms that do not. Imen and Anis (2016) investigated external auditor's characteristics, corporate governance and audit reporting quality in Tunisia. This paper is based on a study simple consisting of 28 Tunisian companies listed on the Tunisian Stock Exchange (TSE) over the period 2006-2013.In this respect, and for further consolidating evidence to be provided an empirical study applying multivariate regression panel data, has been undertaken. The results reached have revealed well that timely disclosure is on average some 155 days to be released highly exceeding regulatory ceiling limit, and only 21, 43% of companies have received "modified" audit opinion. Thus, the results have shown the persistence of substitution effects between control effectiveness as implemented by the directors' Board or by the ownership structure. Therefore the study recommends that companies should quest for a brighter external audit reputation, for the sake of ensuring prompt and reliable information.

Ejeagbasi, Nweze, Ezeh, and Nze, (2015) examined the relationship between corporate governance and the quality of auditor's report with evidence from the Nigerian Banking Industry. The research design adopted for this study is the ex-post facto as the research relied on historic data. Eleven (11) deposit money banks quoted on the Nigerian Stocks Exchange were sampled. In testing our hypothesis, the correlation analysis was applied to a dataset covering seven (7) years from 2007 to 2014 that is the post corporate governance period. Findings show that ownership concentration has a positive but insignificant relationship with audit quality. Findings also show that the strength of the positive linear relationship between the separation of the roles of the CEO from that of the chairman of the board and the audit quality is high. The study recommends that the relationship between management and shareholders have to be characterized by transparency and fairness. Augustine, Chijioke, Oba and Jonathan, (2014) examines the link between auditing quality and auditor independence, auditor experience, auditor accountability in Nigeria. Using a sample of 210 respondents made up of finance directors, auditors, shareholders, and financial analysts and employing structural equation modeling technique for data analysis, we find that auditor independence and auditor accountability have a significant relationship with audit quality. The study finds that auditor experience is not a factor affecting audit quality in Nigeria. The study recommend auditors should consider audit risk before embarking upon an audit so as to be independent and accountability conscious. Al-Khaddash, Al Nawas, and Ramadan (2013) identifed the most important factors affecting audit quality in Jordanian Commercial Banks (JCBs). The perceptions of JCBs' internal and external auditor's in addition to financial managers have been investigated. In general it was found that the respondents believe that audit quality in the Jordanian banking sector ranges from satisfactory to very good. The results indicate a positive and significant correlation between audit quality and audit efficiency, the reputation of auditing office, auditing fees, the size of audit firm, and the proficiency of auditor. The results of this study make a contribution to existing literature in the area of factors affecting audit quality in eastern developing countries such as Jordan. In addition, this research adds further evidence to the value of studying auditing efficiency, the reputation of audit firm, auditing fees, the size of auditing office, and the proficiency of auditor on the quality of auditing. This study recommends that commercial banks should employ the service of auditors with prestigious reputation and be willing to pay more for efficient audit.

Dehkordi and Makarem (2011) investigated whether or not audit quality is influenced by auditor type ( governmental vs. private auditors) and by auditor size (Big auditors vs. non-Big auditors). A sample of 2241 firm-year observations from Tehran Stock Exchange (TSE) companies during the period 2002 to 2007 is used. Discretionary accruals (DAC) is employed as representative of audit quality. Results show that financial statements audited by governmental auditors contain smaller discretionary accruals than those audited by private audit firms do. Furthermore, a change from governmental auditor to private auditors is associated with larger discretionary accruals, suggesting that governmental auditors provide superior audits. Finally, the size of non-governmental audit firms does not affect their audit quality, and changes within private audit firms do not lead to changes in the level of discretionary accruals. The empirical results imply that in some settings such as Iran's, factors including auditor type, intense competition, audit committee, and litigation risk are of greater importance than auditor size. This paper recommends that more light should be shed on the comparison of audit quality between governmental and private audit firms.

## Theoretical Framework

### Auditors' Theory of Inspired Confidence

This theory was developed in Netherlands by the Limperg Institute in 1985; the theory of inspired confidence recognizes the auditor as a confidential agent who derives his function from the need for expert and independent examination as well as the need for an expert judgment supported by the audit work. This theory offers a connection between the users' needs for reliable financial reports and the ability of the audit work to meet those needs. Thus, auditors are required to know that the public expects a low rate of audit failure. Therefore, auditors are required to plan and perform their audit in a manner that will reduce to the barest minimum the risk of undetected material misstatements. The main importance of this theory is that, the duties and responsibilities of the auditors are derived from the confidence and trust that the public bestowed on the success of the audit and the assurance given by the auditor. According to Carmichael (2004), the confidence that the society has in audited financial statements is misplaced when the audit process fails to address the societal expectations giving rise to a loss in the value relevance of even the audit.

### Policeman Theory

This theory was developed in the late 1920s by the Dutch professor Theodore Limperg. The theory claims that the audit and assurance process is responsible for searching, discovering and preventing fraud. This was the case in the early 20th century. However, more recently the main focus of this process has been to provide reasonable assurance and verify the truth and fairness of the financial statements. According to this theory, the audit committees should put in place mechanisms to detect fraud before it happens just like a policeman tries to prevent crime from happening. In terms of quality of financial reporting, audit committee is viewed to perform the duty synonymous to that performed by the policemen such as to check and detect any instances of frauds in the organizations. Therefore, audit committee that is independent, diversified, and financially competent and also has quality meetings is perceived to exercise their mandate more effectively.

### Resource dependence theory

The theory originated in the 1970s with the publication of The External Control of Organizations: A resource dependence perspective by Jeffrey Pfeffer and Gerald Salancik. This theory is adopted in this study because it propose that the audit committees functions as the provider of resources to the firm ( Nelson, 2010) which, ultimately, improves the audit quality of the firm. Audit committee who have auditing knowledge and expertise brings important resource to the company which leads to increase in firm's internal monitoring and enhancing financial reporting quality (hilman & dalziel 2003). Under the resource dependence theory, the audit committee becomes more resourceful and the audit quality will be improved because of the different skills, knowledge, and expertise exchanged among the members ( Hillman & Dalziel, 2003). Therefore, in this study, appointing more independent audit committee members with expertise is considered an important strategy for good audit quality because of their knowledge, experience and expertise whereby firms are able to extract useful resources. Therefore, it is expected that a more resourceful audit committee is likely to engage in a greater level of internal audit and external audit to ensure the good audit quality of the firm. This theory underpinned this study.

## METHODOLOGY

This study is predicated on an effort to investigate the effect of audit committee financial expertise on audit quality of consumer goods companies. Ex-post facto research design was adopted through the use of descriptive and inferential analysis using panel data multiple regression as a technique for data analysis of secondary data which was used in other to establish the findings of this study. This approach was adopted because it enables the study to obtain data driven and evidence base findings which enables the research objective to be achieved. The study used audit committee financial expertise as proxy for audit committee characteristic the independent variable while audit report lag was used to measure audit quality. The study adopted the use of secondary data collected on each of the stated variables, covering the period of 13 years from 2008 to 2020. These annual data series were collected majorly from the published annual report of selected companies.

This study sees audit quality as a function of audit report lag, which is the timeliness of financial report. According to Ogoun et.al 2020, audit report lag simply refers to the timeliness of the release of audit certified annual financial returns, the number of days between the audit committee report and the independent auditor's report on the annual financial returns of each companies at the end of a financial year. From the literature, the whole essence of ARL is anchored on the relevance attribute of financial information. The econometric model used to examine the hypothesis in this study was adopted fromKrayyem Al-Hajaya (2019). AUDLAG= f (ACFE) AUDLAG = $\beta_0 + \beta_1$ACFE+£

Where:

AUDLAG = audit report lag (timeliness of financial

statement) ACFE = audit committee financial expertise β =

coefficient of parameters estimate

£ = error term

**Table 3.1 Measurement of variables**

| SN | PROXY | TYPE | MEASUREMENT | SOURCE |
|---|---|---|---|---|
| 1 | Audit report lag | Dependent variable | The number of days between the audit committee report and the independent auditor's report on the annual financial returns of each companies at the end of a financial year. | Ogoun et al. (2020) |
| 2 | Audit committee financial expertise | Independent variable | Number of members with either accounting and finance qualification and shareholders in the audit committee. | Nahla (2019) |

Source: Researcher's compilation from literature reviewed (2021**)**

**RESULT AND DISCUSSION**

**Table 4.1 Descriptive Statistics Results**

Date: 07/18/21
Time: 22:07
Sample: 2008 2020

| | DEP_ARL | IND_ACFE |
|---|---|---|
| Mean | 4.913462 | 2.961538 |
| Median | 1.000000 | 3.000000 |
| Maximum | 131.0000 | 6.000000 |
| Minimum | 2.000000 | 4.000000 |
| Std. Dev. | 11.17201 | 0.658252 |
| Skewness | 7.416573 | 1.568149 |
| Kurtosis | 79.85329 | 8.568845 |
| Jarque-Bera | 53095.90 | 354.0194 |
| Probability | 0.000000 | 0.200000 |
| Sum | 1022.000 | 616.0000 |
| Sum Sq. Dev. | 25836.44 | 89.69231 |
| Observations | 208 | 208 |

Author's computation 2021 (Eviews-10)

Table 4.1 above is the descriptive statistics of the variable employed. It shows the trend and comprehensive evidence about the variables. The mean tells the average value of the set of variables. Audit report lag has the highest average value of 4.91 while Audit committee financial expertise has a lower average value of 2.96. The median tells us about the middle value of each variable. ACFE has the highest median value of 3 while ARL has a lower median value of 1. The maximum and minimum tell us about the highest and lowest figures of each variable. ARL has a value range from 131 to 2 while ACFE has a value range from 6 to 4. The standard deviation value indicates the dispersion or spread in the data series. The higher the value of standard deviation the wider the deviation of the series from its mean, also the smaller the value of the standard deviation the smaller the deviation from its mean. ARL has a higher standard deviation of 11.2 while ACFE has a lower of 0.66. Skewness measures the degree of asymmetry of data set and shape of distribution of variables. A normal skewness as zero (0) as its value if it is more than zero, then the variable is id to be an abnormal distribution (positive skewness). The skewness of ARL is 7.42 while that of ACFE is 1.57 which shows they are positively skewed.

Kurtosis value measures the peakness and flatness of the distribution of series. If the value of kurtosis is 3 it ismesokurtic and the distribution is normal, if the value is greater than 3 it is leptokurtic, and it means that the distribution is positive. Likewise if the value is less than 3 it is platykurtic, and it means that the distribution is negative. Based on this study the kurtosis value of ARL is 79.9 while ACFE is 8.6 which means they are both leptokurtic (they are positively distributed. The Jarque-Bera statistic is for testing normality of variables, it also measures the difference between skewness and kurtosis.ARL has a higher value of 53095.90 while ACFE has lower value of 354.0194.At 5% level of significance, Audit report lag ( ARL) P-value is less than 5% while Audit committee financial expertise shows a P-values greater than 5 %. This shows that the distribution is not normal and the variables are statistically significant.

**Table 4.2 Correlation matrix**

| | DEP_ARL | IND_ACFE |
|---|---|---|
| DEP_ARL | 1 | 0.144722 |
| IND_ACFE | 0.144722 | 1 |

Author's computation 2021 (Eviews-10)

Table 4.2 is the correlation matrix which shows the relationship between variables in the regression model. The correlation between ACFE and ARL is 0.145 which shows that a positive correlation exist between variables.

**Unit Root Test**

The unit root test is conducted to ascertain the stationarity of the panel data gotten for each variables. The regression investigation conducted without subjecting the data to unit root test may be hazardous or spurious because the estimated parameters would be bias and inconsistent.

**Table 4.3 Unit Root Test (ARL at Level)**

Null Hypothesis: Unit root (individual unit root process)
Series: DEP_ARL
Date: 07/18/21 Time: 21:36
Sample: 2008 2020
Exogenous variables: Individual effects
User-specified lags: 1
Total (balanced) observations: 176 Cross-sections included: 16

| Method | Statistic | Prob.** |
|---|---|---|
| ADF - Fisher Chi-square | 53.4270 | 0.0101 |
| ADF - Choi Z-stat | 3.16907 | 0.0008 |

Author's computation 2021 (Eviews-10)

Table 4.3 above shows the result of the augmented dickey-fuller (ADF) test conducted on the series of Audit report lagshows that ARL was stationary at level which makes it fit into the model stated in 3 ( three) above.

**Table 4.4Unit Root Test (ACFE atFirst Difference)**

Null Hypothesis: Unit root (individual unit root process)
Series: D(IND_ACFE)
Date: 07/18/21 Time: 21:39
Sample: 2008 2020
Exogenous variables: Individual effects
User-specified lags: 1

Total (balanced) observations: 80
Cross-sections included: 8 (8 dropped)

| Method | Statistic | Prob.** |
|---|---|---|
| ADF - Fisher Chi-square | 26.3875 | 0.0488 |
| ADF - Choi Z-stat | -2.31569 | 0.0103 |

Author’s computation 2021 (Eviews-10)

Table 4.4 shows that the result of ADF test conducted on the series of audit committee financial expertise shows that ACFE was stationary at first difference. This means that the data series have been purged of unit root by taking its first difference which made it fit for the model stated in 3(three) above. **Table 4.5 Hausman Test Result**

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Cross-section random | 1.299202 | 1 | 0.0244 |

Author’s computation 2021 (Eviews-10)

The decision taken is that if the probability is P-value greater than 0.05 random effect is accepted, likewise if P-value is less than 0.05 fixed effect is accepted.

**Table 4.6 Regression Result (Fixed Effect Regression)**

Dependent Variable: DEP_ARL
Method: Panel Least Squares
Date: 07/18/21 Time: 21:27
Sample: 2008 2020
Periods included: 13
Cross-sections included: 16
Total panel (balanced) observations: 208

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -2.360849 | 3.549344 | -0.665151 | 0.5067 |
| IND_ACFE | 2.456261 | 1.170062 | 2.099257 | 0.0370 |

| | | | |
|---|---|---|---|
| R-squared | 0.760945 | Mean dependent var | 4.913462 |
| Adjusted R-squared | 0.546192 | S.D. dependent var | 11.17201 |
| S.E. of regression | 11.08119 | Akaike info criterion | 7.657944 |
| Sum squared resid | 25295.31 | Schwarz criterion | 7.690036 |
| Log likelihood | -794.4262 | Hannan-Quinn criter. | 7.670920 |
| F-statistic | 4.406881 | Durbin-Watson stat | 1.620932 |
| Prob(F-statistic) | 0.037012 | | |

Author’s computation 2021 (Eviews-10)

The goal of regression analysis is to estimate the relationship between dependent and independent variable. This goal can be achieved through the estimation of coefficient of the independent variable ( ACFE) in the model which indicate its relationship with the dependent variable (ARL) and the magnitude of the coefficient which implies the response of dependent variable (ARL) to independent variable (ACFE).

**Hypothesis:**

$H_o$: Audit committee financial expertise has no significant effect on the audit quality of consumer goods companies in Nigeria.

In table 4.6 above, the estimated regression line shows that the constant term is -2.36 which means that probability is constant and will decrease Audit report lag by about -2.36. The coefficient of probability ACFE is 2.46 which implies that a unit increase in ACFE will decrease audit report lag by 2.46.This result is consistent with prior expectation that increase in Audit committee financial expertise will reduce Audit report lag. Therefore the measure of ACFE is found to have positive impact on audit quality.

The coefficient of R-square is 0.76 which indicate that 76% 0f the total variation of ARL are explained by ACFE while the remaining 24% account for error term in the model. The Durbin-Watson statistic is 1.62 which suggests a negative serial correlation since it is less than 2 that is the standard for absence of autocorrelation. The estimated statistical result shows that ACFE has a positive and significant impact on the ARL. Therefore showing that the probability P-value is 0.037, which makes the null hypothesis to be rejected.

**Discussion of Findings**

This result of analysis shows that the distribution of variables ARL and ACFE is not normal and the variables are statistically significant and both variable show a correlation of 0.145 which implies a positive correlation. Variable ARL was stationary level while ACFE was at first difference. The regression analysis shows a P-value of 0.037 which means that there exist a positive and significant relationship between the two variables. Therefore the null hypothesis is rejected as audit committee financial expertise has significant effect on the audit quality of consumer goods companies in Nigeria.

## CONCLUSION AND RECOMMENDATION

This study investigated the effect of audit committee characteristics on audit quality of consumer goods companies using ordinary least square. From the analysis of the regression result, the study concludes that audit committee financial expertise is significant at 5% level of significant and it has a positive relationship with audit report lag.This signifies that an increase in audit committee with financial expertise will reduce audit report lag (that is financial report will be made available to interested users on time and they will be able and willing to rely on the auditors opinion. This study is supported by the resource dependence theory which proposes that the audit committee functions as the provider of resources to the firm (Nelson, 2010) which, ultimately, improves the audit quality of the firm. In light of the forgoing, this study recommends that: companies especially consumer goods companies should have more audit committee members with financial expertise so as to ensure timeliness of the annual financial reports in other to encourage investors and other users of the financial report to rely on the published report.

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