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AUDIT COMMITTEE AND ACCOUNTING CONSERVATISM OF NON-FINANCIAL COMPANIES IN NIGERIA

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ABSTRACT

The role of conservatism in accounting has been a subject of controversy and the explanations for its existence have important implications especially for accounting regulators. In light of this the study examine the effect of audit committee on accounting conservatism of non-financial companies in Nigeria. Secondary source of data was use to analyses the hypothesis the study covers ten non-financial companies in Nigeria exchange group for the period of ten years (2011-2020). Using ordinary least square. The study found out that audit committee financial expertise (ACFE) have a co-efficient value of -17.71178 which is statistically significant at 5 percent with p-value of 0.000. This implies that ACFE has negative relationship with its earnings per share which may implies that ACFE is inadequate in relation to the cost expended on them and this made it have negative effect on their earnings per share. Furthermore, the relationship between Audit committee size (ACS) is having a positive coefficient of 7.315646 which is statistically significant at 5 percent. The result indicates that the Audit committee size of the firms' performance in relation to generating profit is moderately encouraging and significant. Also, board independence (BI) has a coefficient of 18.63599 having a p-value of 0.0000. This implies that BI has a positive relationship and significant effect on earnings per share (EPS) of firms in Nigeria. The study concludes that audit committee in terms of Audit committee size, audit committee financial expertise and board independent, with accounting conservatism has significant effect on earnings per share firms in Nigeria. The research therefore recommended that any organization with an existing audit committee should ensure that the composition is known for what the stand for. The numbers of audit committee should include those who have knowledge of generally accepted accounting principle (GAAP) and also have knowledge of financial statements, audit report and management accounting interpretation and analysis.

INTRODUCTION

The quality of financial reports has been questioned since the beginning of the past decade due to the collapse of firms soon after publication of juicy profits. (Bamidele, 2015) This necessitated the tightening of regulations, standards and modification of corporate governance mechanisms. Audit committee is one of those mechanisms introduced by regulators to ensure reliable and high-quality financial reporting. The Audit Committee (AC) is a central element of one of such reforms that can enhance the quality of financial reporting through an open and candid communication and a good working relationship with a company's board of directors, internal auditors and external auditors (Mustafa, 2015). This initiative is a global phenomenon. In Nigeria there have been a number of initiatives such as the Central Bank of Nigeria code of governance for banks. On account of the role audit committees play, listed companies in Nigeria stock exchange are required by Companies and Allied Matters Act, (CAMA, 2004) to put together an audit committee which is expected to assist in ensuring the overall integrity and reliability of the company's financial statements and monitor the effectiveness of a firm's accounting system.

The composition, technical competence and role of audit committees vary from country to country although the goal is the same and is aimed at addressing the weakness of poor financial reporting and prevent corporate failures. The audit committee is a sub-committee of the board and acts as a link between the management, internal and external auditors. In Nigeria, Companies and Allied Matters Act, (CAMA, 2004) section 359 (3) states that "The auditor shall in the case o f a public company also makes a report to an audit committee which shall be established by the public company". According to CAMA, Section 359 (4), the makeup of the audit committee "shall consist of an equal number of directors and representatives of the shareholders of the company (subject to a maximum number of six members)". Section 359 (4) is silent as to whether the directors should be executive or non-executive. The committee has the responsibility of making recommendations for the appointment of external auditors to the board and also monitoring management opportunistic behaviors on behalf of shareholders.

Accounting conservatism is known for years as an important principle in corporate reporting, but this principle had over the years been assessed by policy makers and players in the capital market for its merits and demerits. (Owolabi, 2015) Example of such assessors is the Financial Accounting Standard Board (2010) who removed conservatism from their conceptual framework because they opine that conservatism could lead to information asymmetries which negate the quality of neutrality. In the same vein, scholars such as Penman and Zhang (2015) assert that conservatism accounting could lead to subjective resource allocation and in effect reduce firm value which on the long run affects the equity pricing of such firm. No wonder that Zhuo and Lobo (2017) concluded that the practice of accounting is conservative. Despite the shortcomings of accounting conservatism, it is gaining popularity because of many benefits derivable from conservative accounting practice which may not be known to the policy makers and regulators (Watts, 2018). Conservative accounting would lead to conservative corporate reporting which has effect of diminishing the shareholders' funds of the company. This in effect helps to reduce dangers associated with earnings overstatement and understatement of stock value.

It is asserted by Ahmed and Duellman (2017) that companies practicing conservatism accounting would have comparatively low value losses in period of financial crisis to companies that do not practice it. This is owing to the fact that managers are more likely to be aggressive in earnings strategies during crisis time (Kim & Yi, 2018). Manipulations of earnings would pose information and agency risks on users of accounting information such as shareholders and this may lead to unfavorable performance in times of crisis (Mitton, 2019). The asymmetric confirmation requirements embedded in conservative accounting limit managerial earnings manipulations thereby providing more reliable and transparent accounting information to shareholders (Watts, 2016). In spite of the acclaimed economic merits of conservatism according to Zang (2017) and other scholars, there is little study on conservatism accounting benefits to owners of companies in Nigeria. The importance of conservatism accounting cannot be overlooked in Nigeria especially in this period of economic recession which has eaten deep into every area of investments. Hence, the need for this study the effect of audit committee on accounting conservatism of non-finance companies in Nigeria.

The fair value is different from the conservatism in terms of the speed of recognition of unrealized profits. Semiu Babatunde Adeyem & Okwy Okpala (2018) Agures that Despite the interventions of the regulatory authorities, the challenges of ensuring credibility in financial reporting and auditing are still prevalent, Nigeria is currently experiencing a paucity of research in this direction. The rampant failure of corporate governance in Nigeria as manifested in corporate failures throw strong doubt on the effectiveness of audit committees in carrying out this role. Owolabi, S. A. & Dada, S. O (2017) gives is opinion that Due to accounting scandals, the fraud committed by companies and their auditors have helped in recognizing inconsistencies in reporting and auditing of financial statement. He further discussed that firms in the Nigerian Consumer Goods sector do not practice accounting conservatism and hence produce low financial reporting quality. Conservatism has been measured as an unsettled and prevailing piece in accounting and financial recording (statements). The gap found is that the audit committee characteristics examined are not significantly related to accounting conservatism excluding the financial experience of audit committee.

The study examines the effect of audit committee on accounting conservatism of non-finance companies in Nigeria. Thus, it reveals the ability of the audit committee to monitor and control the management in the routine operations with regard compliance with the rules and standards in achieving the relevant objectives, which in turn implies the safety of the firm. Management could also find this study useful as it investigates the outcome of their stewardship (performance) in relation to the audit committee functions, which points to them some possible areas of additional efforts. Also, regulators such as the Cooperate Affairs Commission (CAC), Corporate Allied Mattes Act (CAMA) etc. could also find this study useful as the study analyzes the consequences of their series of intervention in the banks through the mechanisms of corporate governance. Thus, the results of this study provide empirical evidence on the effectiveness or otherwise of the audit committee and its attributes with regard to performance, compliances and confidence of the investors Shareholders as owners, who are usually concerned with maximization of their wealth, could also find this study useful because audit committee function will decrease agency cost, improve corporate governance, affect performance and improve shareholders" value. Researchers and students would also find this study useful because they are usually interested in understanding how the mechanisms of corporate governance affect corporate operations, activities and performance. The study therefore provides the academic audience a further opportunity to stimulate and trigger thoughts on further research and by extension increase the frontiers of knowledge.

Review of Related Literature and Hypothesis Development

Accounting Conservatism

While there is a wide understanding upon the conservatism in preparing financial statements, there is no comprehensive definition of this concept. Givoly & Hayn (2012) define conservatism as selecting an accounting approach under uncertainty condition which would finally lead to lower assets and revenues and has the least positive influence on the owners' equity. Gim and Zhank (2013), notes that conservatism includes isolating the whole impending losses and non-recognition of the promising earnings. Basu (2014) defines conservatism as a procedure whereby advanced degree of dependability is applied in recognizing and recording the earnings and hopeful news (incremental value); while lower degree of dependability is used in recognizing losses and detrimental news. Penman and Zhang (2014) perceived that accounting conservatism is comprised of selecting an appraised method of accounting which depicts clearly the book value of the assets at a lower level. This is a dominant typical of financial reporting which have been focused on in the recent years because of the famed failures of firms such as Enron and WorldCom (Mohammed, 2013). Some other scholars like Watts (2013), Roychvrdary and Watts (2015) and LaFond and Watts (2016) however, distinguished two main realms of conservatism that have been reflective in literature: downward bias of book value of the equity to its market value; and the tendency to quick recognition of the costs and deferrals in recognizing revenue. The degree of accounting conservatism suggests more timely incorporation of economic damages into accounting earnings than of economic increases (Ball, Robin and Wu, 2014).

Authors such as García-Lara, García Osma, and Penalva (2019) and Ahmed and Duellmand (2011) obtained empirical evidence of the positive association between accounting conservatism and forthcoming profitability because of enhancements in good organizations of investment. Same as financial reporting quality, accounting conservatism has become an inducement to managers to sponsor better accomplishing projects that increase future performance since these economic or financial projects are more profitable (Martínez-Ferrero, 2014). Meanwhile, Ahmed and Duellmand (2011) show that conservative firms relish better future profitability arising from investment in more efficient projects. Bushman and Smith (2012) report that firms with higher financial reporting quality are certain to encourage profitable investment decisions and thus could view increases in their corporate performance. According to Martínez-Ferrero (2014) conservative accounting echoes bad news for the company speedily than good news. This is because this tactic inclines to decrease risks of lawsuits.

Accounting conservatism impact on firm

Although there is a distinction made between the two forms of conservatism, the explanations for why conservatism exists are more or less the same for both forms. The four most common explanations distinguished in prior literature are the contracting explanation, the shareholder litigation explanation, the taxation explanation and the regulatory forces explanation (Basu, and Ryan, 2015). Though, some researchers argue that both forms of conservatism differ in their explanations. Qiang (2017) finds that conditional conservatism is mostly driven by the contracting explanation and litigation explanation, while unconditional conservatism is mostly driven by the litigation, taxation and regulation explanation. The contracting explanation of conservatism refers to constraining opportunistic behaviour from management and increasing the efficiency of contracting (Beaver and Ryan, 2015). As Watts (2013) noted, "conservative accounting is a means of addressing moral hazard caused by parties to the firm having asymmetric information, asymmetric payoffs, limited horizons, and limited liability". Like explained before, conservatism leads to deferred earnings and understated net assets. From a contracting perspective, it limits management's ability to make opportunistic payments to both themselves and other contracting parties, hereby increasing firm value.

As this increased firm value is shared among all parties, conservatism works as an efficient contracting mechanism. The litigation explanation of conservatism relates to litigation costs, which are likely to be higher when a firm overstates its assets, rather than understanding them (Watts, 2013). By using conservative accounting, the chance that firm's management will overstate its income and net assets will decrease. Hereby, the litigation risks will also decrease, as it is difficult to prove that certain investment decisions where not taken due to the understatement (Watts, 2013). When certain investment is undertaken which are based on overstated accounting numbers, the chance of litigation for the firm increases. Especially for firms in the United States, litigation costs tend to be higher, compared to European capital markets (Seetharaman, Gull & Lynn, 2012). Thus, by using conservatism, firms can reduce the risk of litigation. The taxation explanation of conservatism refers to the "delaying the recognition of revenues and accelerating the recognition of expense to defer tax payments" (Watts, 2013). Especially under the unconditional form of conservatism, firms are able to deduct extra expenses (e.g., cost of goods sold by using LIFO), hereby deferring taxes (Qiang, 2017). It must be noted that the use of LIFO is only allowed under U.S. GAAP and not under IFRS (Forgeas, 2018). Especially for highly profitable firms, the use of conservatism can help to reduce current tax payments and defer them to future periods. At last, the regulatory forces explanation refers to the preference of standard setters and regulators for conservatism (Watts, 2013). Standard setters and regulators tend to respond to conservative demands from their constituents, in order to avoid accountability (Qiang, 2017). When these standard setters induce conservatism through regulations, the chance of overstatements will decrease, hereby reducing political costs.

Audit Committees

Section 359(3) of the CAMA (2004) as amended provides for the establishment of Audit Committees in public Companies in Nigeria thus: "The auditor shall in the case of a Public Company also make a report to an Audit Committee which shall be established by the Public Company. This provision was further fortified by Section 359(4) which provides that the membership of the committee shall be composed of equal number of directors and shareholders' representatives so that the maximum number of members of the committee shall not exceed six. The provision on the establishment of Audit Committees in Public Companies in Nigeria was further boosted in 2003 by the Code of Best Practices of Corporate Governance in Nigeria, issued by the Securities and Exchange Commission, which was applicable to all public companies in Nigeria. According to (Nat, 2013) the 2003 SEC Code enjoined companies to have Audit Committees and further indicated directors' representatives in the Audit Committee. The 2003 SEC Code has now been replaced by the Code of Corporate Governance in Nigeria 2011 issued by the Securities and Exchange Commission and which became effective on 1st April 2011. Perhaps, taking a clue from the provisions of the 2003 SEC Code, the Code of Corporate Governance for Banks in Nigeria Post-Consolidation, issued by the Central Bank of Nigeria and mandatory for all banks operating in Nigeria also made provision for the establishment of audit committees in all banks operating in Nigeria. Furthermore, the Code of Corporate Governance for Insurance Companies in Nigeria issued by the regulator of the Insurance Industry in Nigeria, National Insurance Commission (NAICOM), similarly provided for the establishment of Audit Committees in Insurance and Re-insurance companies operating in Nigeria. However, in the Code of Corporate Governance for Licensed Pension Operators issued by the National Pension Commission (PENCOM), the Audit Committee only received a mere mention in two provisions; the first provision, recognizes the Audit Committee as one of the Committees the Board of Directors of a relevant company can establish to facilitate its work and the second provision stipulates that the Corporate Governance report to be prepared by a relevant company for submission to PENCOM should contain the composition of the Audit Committee of the company and the details of the Committee's activities. (Nat, 2013).

Audit Committee Size (AC Size)

The magnitude of the committee is the sum of memberships of the group chosen by the governing bodies. This figure of memberships is taken as a sign of means accessible to the group. Where a large audit committee member exists, it is likely that possible challenges emanating from financial reporting task has the likelihood of being exposed and settled (Mohammed – Nor et al 2010). This depends on the situation where considerable number of the size of the committee rise the available means to the committee and enhances the superiority of control. In a study by Persons (2009) and Li (2008) it indicated "that the audit committee size affects corporate disclosures". Abbott, Parker and Peters (2004) investigated forty-one companies that presented deceitful financial statement and eighty-eight companies which yearly restated their results for nine years (i.e. beginning from 1991 to 1999). The findings depict that committee size has no considerable influence on quality of financial reporting. But in the work of Lin, Li and Yang (2006) indicated negative association amid committee size and financial reporting.

The exact sum of members of audit committee is particularly important as it affects the commitment of memberships to monitor management and detect deceitful behaviours. A bigger size of the audit committee can alleviate material differences throughout the tested equity submissions. Lipton and Lorsch (2011) remarked that the ability "of the audit committee" oversight function rises when the figure of its memberships increases. Yermack (2016) posits that, a lesser audit committee magnitude improves on firms" worth. This stand corresponds with Jensen (2015) assertion that a small sized audit committee enhances the efficiency with which the audit committee engages in oversight and control. However, Mansi and Reeb (2004) noted that an audit committee size that is large spends a considerable period and means to check the financial reporting process and internal control mechanism. These inputs suggest that size constitutes a significant factor for the effective performance of the group. Therefore, the committee's size should be appropriately stated. Having respect to Nigeria, the "Companies and Allied Matters Act" of 1999" as modified in 2004 stipulates "that the Audit Committee of a public limited liability company should be composed of a maximum of six members representing equal number of directors and shareholders". Note that effective audit committee size is important if efficient corpore financial reporting is to be obtained. This is because considerable audit committee members may produce knowledge and experience useful in embarking upon the provision of enhanced economic disclosure quality. Therefore, the study hypothesized that;

H01: There is no significant relationship between board independence and conservative accounting.

Board independence

One of the components of corporate governance is the board independence. Board independence is measured by its composition. For effective monitoring, the board of directors should consist of the right number of independent non-executive directors. According to Hillman and Dalziel (2013), the board is independent when there are a significant proportion of independent non-executive directors. Non-executive directors are more effective in monitoring managers and protecting the interest of shareholders and thereby reducing agency problem (Brickley & James, 2015). Fama and Jensen (2015) argue that non-executive directors enhance the effectiveness of internal control as most non-executive directors are important decision agents in other corporations. Ahmed and Henry (2015) found that firms voluntarily adopting perceived best practice corporate governance mechanisms (voluntarily audit committee formation, increasing board independence and decreasing board size) employ unconditional accounting conservatism as a complimentary agency control device. The Code recommends that non-executive directors should be persons of calibre, credibility and possess necessary skills and experience.

Furthermore, at least one third of the board members should consist of independent non-executive directors for the board to be effective. According to Abdullah (2015), boards of directors of Nigeria firms are generally dominated by non-executive directors. Prior studies indicate that board independence promotes high quality financial reporting. Study by Lin, Fan and Cheng (2015) show that listed companies in China have accounting conservatism in their accounting policies. The increasing percentage of independent directors in the board benefits the improvement of accounting conservatism. Peasnell. (2005) document that earnings management is low when the percentage of outside directors is high. Therefore, the study hypothesized that;

H_{02}: There is no significant relationship between audit committee size and conservative accounting.

Audit Committee Financial Expertise

Prior agency theory literature argued that audit committees are an important part of the decision control system for internal monitoring by the board of directors (Fama 2016) and identified a number of audit committee responsibilities that mainly focus on enhancing company performance and shareholders' wealth (DeZoort 2012). This literature, however, posited that audit committee responsibilities cannot easily be discharged unless such committees have independent directors and relevant expertise. Knechel (2012) noted that poor audit committee characteristics (independence; expertise) weaken audit committee oversight, and, consequently, the quality of financial reporting. Further, it was argued that having an independent mind and strong incentive do not guarantee good oversight unless the relevant expertise is presented (Mustafa and Youssef 2014). Accordingly, it was contended that audit committee expertise enhances the power of the audit committee and financial reporting quality because this power limits management power over a variety of financial reporting processes (Kalbers and Fogarty, 2015).

Many researchers investigated the influence of audit committee financial expertise on a variety of financial reporting quality and audit quality measures. However, the initial empirical evidence on the contribution of financial expertise did not differentiate between accounting and non-accounting expertise and reported that audit committee financial expertise has a positive influence on the quality of financial reporting (Saleh, 2017). Recent growing evidence considered the positive impact of directors with financial expertise, which was reported by previous literature as being exclusively attributed to accounting and auditing expertise and not to other financial expertise (e.g. Defond 2005; Krishnan and Visvanathan 2008; Dhaliwal et al. 2010; Goh 2009; Schmidt and Wilkins 2013). Therefore, we could posit that audit committee accounting expertise is among the relevant expertise for timely reporting. Recent audit report timeliness literature examined the association between audit committee accounting expertise and financial reporting timeliness (e.g. Mohamad-Nor, 2010; Wan-Hussin and Bamahros 2013; Abernathy, 2014; Baatwah,2015). Therefore, the study hypothesized that;

H_{03}: There is no significant relationship between audit committee financial expertise/experience, and conservative accounting.

Conservatism and the audit committee

In the previous paragraphs, both accounting conservatism and the audit committee as separate concepts have been described. Though, it still remains unexplained how the concepts of accounting conservatism and the audit committee can be linked. Prior research on this specific link is limited, as most researchers focus on either board of directors' characteristics associated with conservatism (e.g. Ahmed & Duellman, 2017) or the association between the audit committee and other accounting choices like earnings management (e.g. Klein, 2012). The study by Krishnan and Visvanathan (2008) is one of the few studies focusing on the association between conservatism and the audit committee, specifically focusing on the influence of members with financial expertise. They argue that the risk of litigation increases the incentive for audit committee members to stimulate conservatism. Although it may seem that there is no clear distinctive link, the litigation explanation of conservatism can be used to relate conservatism to the audit committee. Also, the contracting explanation can be used as a link between conservatism and the audit committee. As described before, the contracting explanation refers to the restriction of opportunistic managerial behavior at the cost of the shareholders (Beaver & Ryan, 2015). By restraining opportunistic behavior, potential agency problems between firm's management and the shareholders can be reduced.

On behalf of the shareholders, the audit committee is a key mechanism in monitoring the quality of the financial reporting process and the accounting choices which are made, in order to limit these agency problems. By stimulating management in making conservative accounting choices, the audit committee can limit these potential agency problems. The audit committee is ought to be monitoring financial reporting by management effectively in order to reduce the chance of overstatements for example. Thus, effective audit committees can be expected to promote conservatism, as it reduces the chance of getting litigated by shareholders for deceptive financial reporting.

Interaction between the Board Independence and Accounting Conservatism Accounting

Conservatism and corporate governance, specifically the board of directors are connected to each other in several ways. Watts (2015) describes that conservatism helps to solve a bias that is created by information asymmetry. The information generated through accounting systems is used by directors on the board to monitor and advise managers. Managers also have information for the board of directors; however, they can hold back important information, or information for the board can be biased in favor of the managers (Ahmed & Duellman, 2017). Since conservatism needs a higher degree of verification for good news, gains for example, the chance of managers overstating earnings decreases (Basu, 2015). So, accounting conservatism is a tool that averts managers from producing biased information, which leads to bonuses and over compensation (Ahmed & Duellman,2015). Ball (2011), states that conservatism, with timely recognition of losses can help the board to recognize negative net present value (NPV) investments. Managers could try to postpone or even elude reporting losses negative NPV projects because this could cause negative performance evaluation for the managers, timely recognition could help to prevent this (Ahmed & Duellman, 2017).

So, accounting conservatism can serve as a mechanism for directors on the board to identify negative NPV projects, and thus helping to identify and investigate bad investments by top management. The probability of corporate collapses can be reduced through accounting conservatism, and shareholders could boost this accounting mechanism by communicating with the board of directors and their connection with top management (Lim, 2017). Reporting conservatively leads to a timelier disclosure of losses compared to gains. These way financial issues will surface in early stages (Garcia Lara, 2009). So, through conservatism, the directors on the board notice losses and can intervene to prevent the company from collapsing (Lim, 2011). Fama & Jensen (2014) describe that agency problems cannot be solved only through a good board of directors, nor only with accounting conservatism. However, the connection between these instruments does lead to a reduction in agency problems and also to a fair representation of accounting information by managers. As previously described, this connection between accounting conservatism and the board of directors can lead to better monitoring of management, a decrease in biased information, the investigation of managers' poor investment decisions by the board, and it reduces the probability of corporate collapses (Lim, 2011).

Garcia Lara (2009) also states that an effective board leads to more transparency, a decrease in earnings management and more independence between top managers in the company and directors on the board. An effective board can be defined as an independent board, which is a board with a high percentage of outside directors on the board. Conservatism turns out to be a very suitable mechanism for the board to monitoring, managing and advising management. Therefore, it can be assumed that boards that comprise of a high number outside directors would want more accounting conservatism. On the other hand, a board that has a high number of inside directors probably would want less accounting conservatism. To conclude, an independent board of directors will be positively related to accounting conservatism. Beekes (2014) researches the connection between earnings timeliness and conservatism, and the composition of the board of directors. They argue whether different characteristics of the board lead to changes in conservatism and timeliness of earnings. The sample they use for their study consists of non-financial companies from the United Kingdom from the years 1993 to 1995. Beekes. (2014) used the Basu (2012) model for the reverse regression to measure the timeliness of the timeliness of earnings for both good and bad news. The authors predict that firms with a high proportion of outside board members are timelier in the recognition of bad news and less timely in the recognition of good news scenarios. The predictions are validated by their findings, which point out that firms with boards dominated with outside directors have increased earnings timeliness when it comes to bad news (Beekes, 2014). They conclude their research by stating that the composition of the board of directors is an important factor with respect to the timeliness of bad news in earnings and conservatism.

Theoretical Review

Agency Theory:

The agency theory can be traced back to (Berle & Means, 1932) some authors are of the opinion that this can be traced back to Adam Smith in 1776 and his renowned book, "The Wealth of Nations." In studying conservatism, different researchers have emphasized the importance of conservatism as a means to address and limit agency problems between firm's management and other parties (e.g. Watts, 2013 & Taylor, 2015). Thus, agency theory can explain why conservatism is used within firms. In describing agency theory, Eisenhardt (1989) argues that "agency theory is directed at the ubiquitous agency relationship, in which one party (the principal) delegates work to another (the agent), who performs that work". Jensen (1983) presents two perspectives within the agency theory literature. The 'positivist agency' perspective focusses on situations of conflicting goals between agent and principal and how governance mechanisms can help solving these agency problems. The emphasis within this perspective is mainly on the practical implications of agency problems, especially on agency problems between shareholders/debt holders and management.

The second stream of literature follows the 'principal-agent' perspective, which focuses on the "general theory of the principal-agent relationship" (Eisenhardt, 1989), which can be used for any principal-agent relations. Research within this perspective is focused on the abstract side of agency theory instead of the practical side. Because of goal incongruence, agents do not always act in line with the principal's best interest. Research also refers to this problem as a moral hazard or hidden action problem (Mora & Walker, 2014). Besides, principals have asymmetrical information in monitoring agents. Research also refers to this problem as adverse selection (Mora & Walker, 2014). Jensen (1993) argues that as larger firms will allure more external monitoring due to its complexity, monitoring costs will increase. To mitigate these agency problems, contracts between the agent and principal are put in place. Following Fama and Jensen (1983), agency problems mainly arise due to separation of ownership and control over the firm. Thus, by demanding more conservative accounting policies, these agency problems between owners and firm's management can be restricted.

Power Theory

Al-Lehaidan (2006) defined power as the situations in which one social actor prevails over others. Power often is an implicit element in the control of organizational action. Hence, components of organizations, such as audit committees, must possess power to discharge their responsibilities effectively. In the context of audit committees, Kalbers & Fogarty (2016) identified six types of power that could affect audit committee such as legitimate power sanctionary power, information power, expert power and will power. In their study, they investigated the contribution of the power of audit committees in 90 US firms. Kalbers & Forgarty (2016) proposed that audit committee effectiveness is perceived as function of the types and extent of audit committee power. Their results revealed that the will power (diligence) has the most impact on audit committee effectiveness among the personal powers. Also, they review that formal, written authority and observable support from management played the most important roles in audit committee effectiveness (institutional powers).

The classification of the different type of powers by Kalbers and Fogarty has aided the understanding that audit committees are composed of individuals, and as a result, their personal attributes cannot be ignored. Furthermore, the desire to do the work of the audit committee with a high level of commitment could be an important factor in determining audit committee effectiveness (will power). The will power is enhanced greatly if the audit committee members were independently nominated and remained independent from management while playing their oversight role of ensuring that the quality of the financial reporting process is not impaired (Al-Lehaidan, 2006).

Stakeholder Theory

Stakeholders are those groups who are vital to the survival and success of the corporation. According to Appah (2019), a stakeholder is any group or individual who can affect or be affected by the achievement of an organization's objectives. This theory observes that the company is a separate organizational entity and it is connected to different parties in achieving wide range of objectives. The theory highlights interests of different groups and argues on the possibility of favoring one group's interest over that of others. If the unity of the corporate body is real, then there is reality and not simply legal fiction in the proposition that the managers of the unit are fiduciaries for it and not merely for its individual members, that they are trustees for an institution rather than attorneys for the stockholders. This confirms the nature of stakeholder theory compared to agency theory.

The theory highlights interests of diverse groups and argues on the likelihood of favoring one group's interest over that of the other pointed out that managers are responsible for deploying their wise decisions and best efforts in obtaining benefits for all stakeholders. The board cannot overlook its responsibilities in protecting stakeholders' interest. Hillman, Keim & Luce (2001) found that conclusion of interested parties in the board merely improves their relation and performance. An active audit committee ensures better corporate governance practice in a firm that ultimately leads to the overall welfare of stakeholders. The definition of active audit committee given by Dezoort, Hermanson & Archambeault (2002) emphasized the stakeholders' interest. They argued that the ultimate goal of the audit committee is to protect stakeholders' interest and welfare.

Therefore, the theory that underpins this study is Agency theory from efficiency and prescriptive perspective the theory provides a framework and a logical linkage between audit committee on accounting conservatism. The resources used to visualize and execute it are valuable, rare, inimitable and non-substitutable however, Agency theory suggests that higher proportion of non-executive directors increases the effectiveness of the board. Prior studies indicate that higher proportion of non-executive directors on board to be more conservative (Beekes et al., 2004; Ahmed & Duellman, 2007; Lim, 2011) The emphasis within this perspective is mainly on the practical implications of agency problems, especially on agency problems between shareholders/debt holders and management. The second stream of literature follows the 'principal-agent' perspective, which focuses on the "general theory of the principal-agent relationship" (Eisenhardt, 1989), which can be used for any principal-agent relations. Research within this perspective is focused on the abstract side of agency theory instead of the practical side. Because of goal incongruence, agents do not always act in line with the principal's best interest.

Empirical Review

Ali, Kaid and Hanim (2010) examine the relationship between the internal corporate governance mechanism related to the board of directors, the audit committee characteristics and the performance of the Saudi companies listed in the Saudi Stock Exchange (TADAWL) in 2010, excluding financial companies. The study used Tobin"s Q ratio to measure performance; the statistical results of the study are contrary to agency theory that board of directors and audit committee might mitigate agency problems leading to reduced agency cost by aligning the interests of controlling owners with those of the company while Audit Committee size is reviews to have a significant relationship with firm performance, (but in the opposite direction to expectation).

The Sarbanex-Oxley Act (SOX, 2014) sees audit committee as a committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer. According to SOX, audit committee roles should include the review of financial statements, the effectiveness of the company's accounting and internal control systems, and the findings of the auditors and to make recommendations on the appointment and remuneration of the external auditors.

Carcello (2015) find that independent audit committee members with accounting expertise and certain types of non-accounting financial expertise are most effective in mitigating earnings management. Using internal control weakness has a measure of financial reporting quality. Zhang (2015) find that firms are more likely to be identified with an internal control weakness if their audit committees have less accounting financial expertise and non-accounting financial expertise. However, another two recent studies find contradicting results on the role of accounting expertise and non-accounting expertise. Examining the composition of audit committees for a sample of 500 firm.

Krishnan & Visvanathan (2016) find that only accounting financial expertise, rather than non-accounting financial expertise, is positively associated with conservatism, a fundamental property of financial statements. On the other hand, Goh (2009) finds that only non-accounting financial expertise, rather than accounting financial expertise, is positively associated with reporting quality. Access can only be gained to what the executive directors provide. Therefore, the need to have an audit committee with financial expertise cannot be over-emphasized. As noted in extant literature, for instance, Carcello & Neal (2003) and Dhaliwal, (2007) document lower instances of earnings restatements, higher demand for audit services and lower occurrence of financial fraud in firms with financial expertise in audit committees.

Ghafran (2017) in the UK finds that audit committee financial expertise exerts significant impact on audit quality which invariably impact on the quality of financial reports. Although Krishnan & Visvanathan (2008) fail to find any significant impact of non-accounting financial expertise on financial reporting quality existing theoretical and empirical research suggest that a mix of accounting and non-accounting expertise may enhance audit committee's ability to monitor financial reporting process. Resource dependence theory argues that directors extract human capital resources from other directors to improve firm performance.

Cohen, (2018) argue that audit committee can benefit from a mix of accounting and non-accounting expertise, such as finance expertise. Dhaliwal (2010) argued that finance experts such as investment bankers and financial analysts can complement accounting experts to promote higher financial reporting quality as measured by accruals quality. They also find that supervisory experts such as CEOs or company presidents are unable to help accounting and finance experts to enhance financial reporting quality, which appears to contradict the findings in Goh (2009). (Krishan, 2019), Audit committee is an integral part of checks instituted to curb managerial excesses. Audit committee is an essential tool for corporate management and supports the monitoring process aimed at mitigating agency conflicts between principal and agents. Audit committee without external influence enjoying independence with expertise of members in financial matters strengthen internal control in organizations and mitigate conflicts of interest.

According to Abott (2019) an increase in number of independent members in audit committee reduces cosmetic accounting. Cohen (2011) suggested that independence of audit committee members guarantee effectiveness, reliability of financial reports and mitigate manipulative and selfish motives of managers. Nuryanah & Islam (2011); Yasser, (2011); Bouaziz & Triki (2012); Arslan (2014); concluded in their studies that independence of audit committee members enhances quality of reports and performance. On the other hand, Hutchinson & Zain (2009) found no positive relation between audit committee independence and performance. Mak & Kusanni (2005) suggest there is no significant correlation between market value and audit committee independence. Thus, while some studies confirm a positive and beneficial relationship of audit committee and accounting conservatism of the firm other studies confirm no relation exist.

METHODOLOGY

Research design espoused by the study is ex-post facto design as well as longitudinal research design. The study used data from secondary sources. Data was collected from the annual report of the selected firms on the Nigeria exchange group for the period of 9years (2011-2020). The base year was chosen because it will capture periods of various economic significances such as booms and recessions in the oil and gas sector, their business activities was not suspended during the year and the study variables figure are visible and significant in their financial statement. The year 2020, was selected because it represents the most recent year that data that can be obtained from the annual financial statements published by the banks and analysis will be done using the data obtained. The population of the study comprises of 28 consumable goods firm quoted on the Nigerian exchange group as December 2020. The study will adopt census sampling techniques to focus on 10(ten) consumable goods firm quoted on the Nigerian exchange group as December 2020. This financial statement ranges from 2011-2020. The study employs the common Ordinary Least Squares (OLS) regression analysis. The researcher employs the binary logistic regression method to test the hypothesized relationship among audit committee on accounting conservatism.

Data Analysis, Presentation and Interpretation

Table 1 Descriptive Statistics

	AC_FE	AC_S	B_I	EPS
Mean	0.659000	0.523000	0.602000	12.07200
Median	0.645000	0.495000	0.620000	11.98500
Maximum	0.760000	0.690000	0.750000	16.45000
Minimum	0.540000	0.330000	0.470000	8.120000
Std. Dev.	0.058853	0.112461	0.076910	2.725665
Skewness	0.035798	0.082925	0.082691	0.116767
Kurtosis	3.178351	1.917766	2.585416	1.718010
Jarque-Bera	0.153895	4.994739	0.830129	7.075150
Probability	0.925938	0.082301	0.660298	0.029084
Sum	65.90000	52.30000	60.20000	1207.200
Sum Sq. Dev.	0.342900	1.252100	0.585600	735.4956
Observations	100	100	100	100

Source: Author's computation using Eviews 9

From the table above, natural value of audit committee financial expertise ranges from 0.540000 to 0.760000 with a mean of 0.659000 and standard deviation of 0.058853. Value of Audit committee size as has a minimum of 0.330000 and maximum of 0.690000 with a mean of 0.523000 and standard deviation of 0.112461. Board independence is averaged 0.602000 with and ranges from 0.470000 to 0.750000 with a standard deviation of 0.076910. Natural value of earnings per share ranges from 8.120000 to 16.45000 with a mean of 12.07200 and standard deviation of 2.725665.

Hausman Specification Test

The result of the Hausman specification test conducted produced p-value of 1.0000, which is insignificant at 5%. This implies that the variation across entities is assumed to be random with the independent variables included in the model. The result to know the model interpretation for the objective showed p-value that is insignificant at 5 percent implying that the variation across entities is assumed to be random and uncorrelated with the independent variables included in the models. This indicate that the best model for interpretation is random effect model.

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	0.000000	3	1.0000

* Cross-section test variance is invalid. Hausman statistic set to zero.
** WARNING: estimated cross-section random effects variance is zero.

Source: Researchers' Computation (2021)

Table 2 Multiple Regression Analysis

Dependent Variable: EPS
Method: Panel Least Squares
Date: 09/24/21 Time: 22:20
Sample: 2011 2020
Periods included: 10
Cross-sections included: 10
Total panel (balanced) observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AC_FE	-17.71178	3.615050	-4.899457	0.0000
AC_S	7.315646	2.091948	3.497049	0.0007
B_I	18.63599	3.070267	6.069828	0.0000
C	8.699115	3.725912	2.334761	0.0216

R-squared	0.427466	Mean dependent var	12.07200
Adjusted R-squared	0.409574	S.D. dependent var	2.725665
S.E. of regression	2.094379	Akaike info criterion	4.355569
Sum squared resid	421.0966	Schwarz criterion	4.459776
Log likelihood	-213.7785	Hannan-Quinn criter.	4.397743
F-statistic	23.89184	Durbin-Watson stat	1.504034
Prob(F-statistic)	0.000000		

Source: Author's computation using Eviews 9

Table 2.1 shows that audit committee financial expertise has a significant negative coefficient on earnings per share, while Audit committee size and board independence has a significant positive coefficient on earnings per share. The R-Square of 0.427 implies that almost 43% variation in the dependent variable (earnings per share) is accounted for by independent variables. The remaining 57% is accounted for by other variables not captured in the model. The probability of the F-statics of 0.000 indicates the overall fitness of the model. The Durbin Watson statistics of 1.50 implies that there is no problem of autocorrelation. Also, the R^2 and Adj. R^2 show that there model is stable as the figures are not significantly different. This means that the estimation of dynamic model is appropriate. From the equation:
EPS = 8.69911455617+ -17.7117826567 (AC_FE) + 7.31564554727 (AC_S) + 18.6359926801 (B_I) + e

Discussion of Findings

As to the effect of Audit committee on the accounting conservatism, it was found that there is a strong significant positive effect of Audit committee size and board independent, while audit committee financial expertise has a negative effect on the earnings per share. The researcher hereby fail to accept H_{01} that there is significant relationship between audit committee and accounting conservatism. The regressed result showing how audit committee in terms of Audit committee size and board independent, while audit committee financial expertise affects accounting conservatism as shown in table 2. The Hausman specification test conducted produced p-value of 1.0000, which is insignificant at 5%. This implies that the variation across entities is assumed to be random with the independent variables included in the model. The result to know the model interpretation for the objective showed p-value that is insignificant at 5 percent implying that the variation across entities is assumed to be random and uncorrelated with the independent variables included in the models. The implication of the finding with respect to negative/positive significant effect of audit committee and accounting conservatism is that more emphasis should be placed on audit committee financial expertise to improve the significant level. On the other hand, the findings of this study are consistent with the findings of Krishnan & Visvanathan (2016) who find that only accounting financial expertise, rather than non-accounting financial expertise, is positively associated with conservatism, a fundamental property of financial statements. On the other hand, Goh (2009) finds that only non-accounting financial expertise, rather than accounting financial expertise, is positively associated with reporting quality.

Conclusion and Recommendations

The study provides the instrument and diverse judgement on forensic accounting and fraud management by scholar and authors. It further, provided the statement of problem which explains the concept of audit committee on accounting conservatism of non-financial and the problem associated to it which the study wants to solve. Also, research questions, hypothesis were formulated and with specific objectives of the study to achieve its general objectives. Literature which contained the conceptual reviews to expatiate on the variables contained in the study, exploring different theories that support the study out of which the study hinged on theory of Agency and other supportive theory which stakeholder theory, and power theory. As well as the empirical review of the study, the empirical review for this study reviewed the relevant literature to the research work. As to the effect of Audit committee on the accounting conservatism, it was found that there is a strong significant positive effect of Audit committee size and board independent, while audit committee financial expertise has a negative effect on the earnings per share. The researcher hereby fails to accept H_{01} that there is significant relationship between audit committee and accounting conservatism. The regressed result showing how audit committee in terms of Audit committee size and board independent, while audit committee financial expertise affect accounting conservatism as shown The Hausman specification test conducted produced p-value of 1.0000, which is insignificant at 5%. This implies that the variation across entities is assumed to be random with the independent variables included in the model. The result to know the model interpretation for the objective showed p-value that is insignificant at 5 percent implying that the variation across entities is assumed to be random and uncorrelated with the independent variables included in the models. Audit committee financial expertise (ACFE) have a co-efficient value of -17.71178 which is statistically significant at 5 percent with p-value of 0.000. This implies that ACFE has negative relationship with its earnings per share which may implies that ACFE is inadequate in relation to the cost expended on them and this made it have negative effect on their earnings per share. Furthermore, the relationship between Audit committee size (ACS) is having a positive coefficient of 7.315646 which is statistically significant at 5 percent. The result indicates that the Audit committee size of the firms' performance in relation to generating profit is moderately encouraging and significant.

The study found that audit committee financial expertise (ACFE) has a co-efficient value of -17.71178 which is statistically significant at 5 percent with p-value of 0.000. This implies that ACFE has negative relationship with its earnings per share which may implies that ACFE is inadequate in relation to the cost expended on them and this made it have negative effect on their earnings per share. Furthermore, the relationship between Audit committee size (ACS) is having a positive coefficient of 7.315646 which is statistically significant at 5 percent. The result indicates that the Audit committee size of the firms' performance in relation to generating profit is moderately encouraging and significant. The following recommendations will encourage and enhance effective corporate governance if properly applied and introduced; Every organization that wishes to have a functional and effective corporate governance system should have an audit committee to oversee many of the management oversights; Also, any organization with an existing audit committee should ensure that the composition is well made to include independent directors or non-executive directors who are independent of the management for effective and honest work; Audit committee charter is also recommended for all establishments so that the public can know what they actually stand for.

Suggestions for Further Studies

This study is limited to listed banks on NSE which consist of listed commercial banks. Hence, future study could raise a question on how the situation would be formed in case of non-commercial banks in financial sectors. Future researchers can extend the current study for by comparing financial and nonfinancial companies. Besides, future studies can select other audit committee characteristics such as age, experience of audit committee member, to examine the impact of those characteristics on another measure of financial performance such as PAT, ROCE, ROA, etc. Lastly, future study could examine this concept by adjusting the methodology of this study. This study focusses on secondary data. Therefore, future study could make use of primary data source in affirming or contrasting the findings of this study.

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