Audit Committee Characteristics and Financial Restatement of Quoted Non-Financial Firms in Nigeria

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Abstract

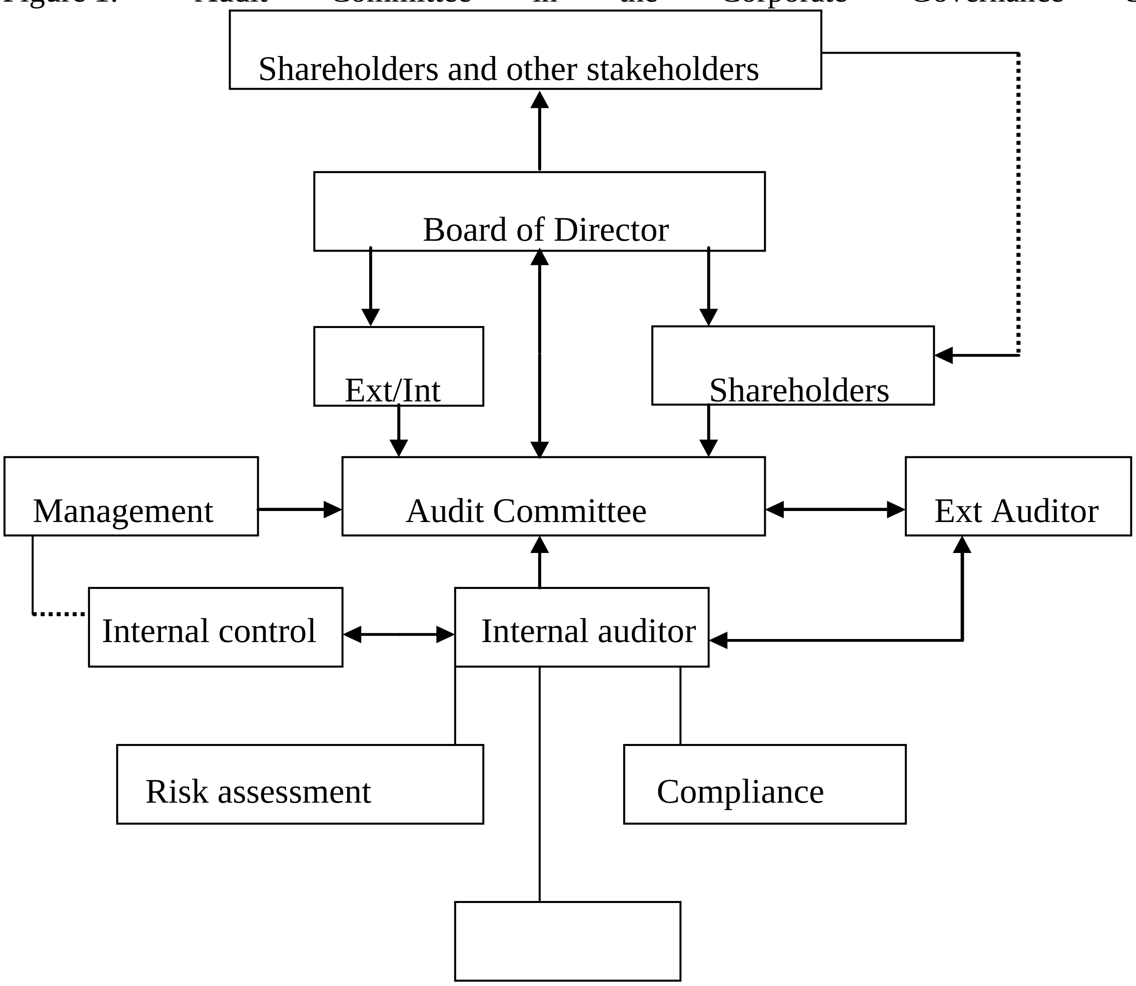
This study investigates whether there is any relationship between audit committee characteristics and financial restatement. Using secondary data over the period from 2005 to 2020 of 76 non-financial firms, the results of the generalized methods of moments (GMM) reveal that audit committee independence, audit committee diversity, audit committee meetings and audit committee expertise are positively significant with financial restatement while total audit committee size is negatively insignificant with it. The overall results shows that although most of the audit committee characteristics significantly influenced financial restatement, none of them helped in reducing managers tendencies to reduce the practices of restating previously reported financial statements. The study concludes with some recommendations for better performance reporting.

Keywords: *Audit Committee Characteristics, Restatement, Quoted, Non-Financial Firms, GMM.*

1.0 Introduction

Financial statements are the summary of firms' business activities which are expected to be transparently disclosed to various stakeholders. The main objective of financial statement is to provide financial information that is useful to both existing and potential investors, lenders and other creditors so as to make economic decisions to various users (IASB, 2008), Therefore, it is very crucial for preparers to be sure that accurate information is given in order to guarantee the credibility of financial reporting (Hassan et al, 2022). The series of celebrated global corporate scandals in the turn of the 21st century has resulted in more stringent scrutiny and monitoring of corporate activities of which audit committee is expected to play a crucial role. A series of events such as those of Enron, Adelphi Communications, Global Crossing and World Com as well as those of Afribank Nigeria Plc and Cadbury Nigeria Plc which recently plagued the business community have made corporate governance issues to be of great concern for all stakeholders (Egbadju & Kunemoemi, 2019; Owolabi & Dada, 2011). Again, Tugman and Leka (2022) posited that recent scandals and corporate failures across countries which include the collapses of South African Airways and Transnet, Eskom which are two state-owned South Africa's entities as well as in the United Kingdom of London Capital & Finance and Carillion, Patisserie Valerie attest to corporate governance failures. The audit committee is part of corporate governance structure saddled with an oversight function of ensuring that financial reporting meets stakeholders' expectations.

Figure 1: Audit Committee in the Corporate Governance Structure.



Source: Adopted from Owolabi and Dada (2011)

Figure 1 above depicts the central role which the audit committee is expected to play in any organization. Its importance can be seen by the arrows pointing to and fro the audit committee.

Although the Nigerian Corporate Governance Code of 2018 recommended that, where possible, companies should set up sub-committees such as: nominations, risk management, governance, remuneration and audit; the central role of the audit committee cannot be over-emphasized from Figure 1 above. Specifically, the Code advised the use of independent non-executive directors as members of the audit committee. This is to ensure that they perform their role of effective monitoring of the financial reporting process, as watchdog, with utmost credibility.

In Nigeria, the Law that established the audit committees for public companies was in section 359(3) of CAMA 1990 but now in section 404(2) of CAMA 2020. It states that 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. The audit committee is to be made up of three executive directors and two non-executive directors in section 404(3), and who, in section 404(4) shall examine and make recommendations on the auditors' report before the annual general meeting. Thus, the audit committee is one of the sub-committees established by the board of directors in accordance with legal provisions.

The functions of the audit committee as outlined in Section 404(5) are to:

- ensure that the company's accounting and reporting policies are in agreement with statutory requirements and ethical practices.
- oversee the scope as well as the planning of the audit requirements.
- review, in conjunction with external auditor and other departmental responses, the findings on management matters
- guarantee transparency by ensuring that the company's accounting and internal control system are effective.
- recommend to the Board of Directors in matter concerning the appointment, the removal and the remuneration of the company's external auditors.
- instruct the internal auditor to investigate any activities of the company which may jeopardize corporate governance sustainability.
  Thus, the essence of the audit committee is to ensure that any act of omission or commission by management that would depreciate, deplete and destroy shareholders and stakeholders' values are immediately nipped in the bud. (Owolabi & Dada, 2011).

The question one would like to ask is has the audit committee really lived up to its biddings? The question will be answered with respect to the frequencies of management restatement of previous years' financial statements. Reinaldo (2022) observed that in recent years, the rise in financial restatement has drawn public attention due to the fact that it has created significant losses. It gives signals to investors that there are problems (material misstatement or omissions) in the accounts and an indictment on corporate governance. Financial restatement, which for years has been an ongoing global debate, is increasing in number recently with the attendants' consequences on market capitalization losses and the entire economy (Hasman et al., 2022). Restating previous financial reports is commonly associated with inaccurate information and this is usually accompanied with adverse market reactions from creditors, investors and regulators. Nevertheless, not all financial restatements are bad news. Fraudulent financial restatements lead to negative public reactions which results in loss on confidence on the accuracy and reliability of the reports. Bardis (n. d.) was of the view that revenue recognition was the major cause of restatements with equity, accruals and contingencies, reserves, inventory, capitalization of assets, high levels of outstanding debts and earning expectations as other causes. This study seeks to contribute to the extant literature which of the audit committee's characteristics can assist in lessening managers' propensity to engage in financial restatements.

Following this introduction, the rest of the paper is divided into five sections with the literature review in section two, methodology in section three, discuss of results in section four and the fifth section concludes this paper.

2.0 Review of Related Literature.

2.1 Theoretical Underpinning.

2.1.1 Information Asymmetry Theory

This theory which first started with Akerlof's 1970 "The Market for Lemons" described the pricing problem of second hand cars in the United State of America (USA) where parties to a transaction do not have full information on certain aspects of the transaction (Isniawati et al. 2018). That is, a condition of information asymmetry is one under which one party possesses better, relevant and more up-to-date information than the other party they are dealing with. It has been applied to principal-agent problem where one party has to rely on information from another party who has more knowledge than him. For example, the shareholders are the principals or owners of the firms. They employ the managers-the agents- and delegate responsibility for the day-to-day running of the business. Since managers have much information than the owners, asymmetric information gap is thus created. This may eventually lead to inefficiencies more so if the managers' objectives are not aligned with those of the shareholders. From the managers' perspective, inefficiencies may arise when managers choose to engage in financial records manipulations without revealing appropriate information to the owners due to selfish gain. Managers may therefore engage in manipulating accounting statistics to reflect a better picture of the firm's financial status using various techniques as listed by Bardis (n. d.) so as to meet or surpass the expectations of the markets (Fun et al., 2023). This moral hazard stems from the fact that the agent and principal utility-maximize curve are different since the agent will not always act in the best interest of the principal(Jensen & Meckling, 1976). Audit committee, which is expected to play a very crucial role in monitoring management aberrant behaviour could help in mitigating the agency problem by ensuring the credibility of financial reporting.

2.2 Empirical Literature

Velte (2022) carried out a study to ascertain whether external auditors have had any impact on firms' financial restatements. The researcher undertook a systematic review of literature on 69 archival studies. The competence of the auditor was measured with proxies such as: audit firm size, auditor reporting as well as auditor industry expertise. The results specifically identify audit firm size and auditor expertise to have significantly decreased financial restatements meaning they are negatively related to restatement.

Reinaldo.(2022) studied whether there is any relationship between audit committee characteristics and financial restatement in Indonesia. The researchers used annually sourced panel data collected over the period from 2016 to 2020 on 569 firms quoted on the floor of the Indonesia Stock Exchange (IDX). The results of the ordinary least squares (OLS) regression revealed that audit committee size had a negatively statistical effect on restatement; audit committee expertise had a positively statistical effect on restatement while audit committee independence, audit committee meetings and audit firm size did not. This means that only audit committee size helped in reducing management tendencies to restate financial statement after engaging in earnings management.

Fountaine and Phillips (n. d.) embarked on a survey research on the causes and effects of financial restatements in the United States of America. The researcher undertook a comprehensive review of literature on 100 studies. The majority of restatement studies noted that top management of firms' incentive compensation like in-the-money stock options are linked to earnings management which eventually results in financial restatements.

Hasnan (2022) empirically tested whether audit committee characteristics has had any impact on financial restatement in Malaysia. The study used secondary panel data over the period from 2006 to 2020 obtained from 100 financial restatement firms and 200 non-financial restatement firms. The OLS regression results indicated that audit committee size, audit committee meetings and political connections were negatively significant with financial restatement; ethnicity was positively significant while audit committee independence, audit tenure, audit committee gender, audit committee expertise, audit committee age, audit committee ethnicity and legal qualifications were insignificant.

Mahdi et al.(2021) researched on the extent to which audit committee characteristics and auditor changes might have influenced financial restatement in Iran. Secondary data collected from annual reports of 105 companies quoted on the floor of the Teheran Stock Exchange (TSE) from 2012 to 2016 was used. The logistic regression results showed that audit committee independence, audit fees were negatively significant with financial restatement; audit committee change, audit tenure and types of audit reports had positive influenced on financial restatement while audit committee expertise and audit committee experience were insignificant. The results above showed that only audit committee independence and audit fees helped in reducing management tendencies to restate financial statement after engaging in earnings management.

Hasnan et al. (2019), in this research, investigated the effect which audit committee characteristics have had on financial restatement in Malaysia. Secondarily sourced panel data over the period from 2003 to 2013 obtained on 208 companies quoted on the Main Board of Bursa Malaysia was used. The results of the OLS showed that multiple directorship was negatively significant with financial restatement. This means that multiple directorships helped to mitigate management tendencies to influence financial restatements.

Orjinta and Ikueze (2018) attempted an empirical examination of how audit committee characteristics have influenced financial performance in Nigeria. Secondarily sourced panel data over 2007 to 2016 period obtained on 50 quoted on the Nigeria Exchange Group (NXG) was used. The results of the OLS showed that audit committee meeting and audit committee independence had positive and significant relationship with financial performance (ROA).

Abbott et al.(2002) attempted an empirical examination of how audit committee characteristics have influenced financial restatement in the United Kingdom. The study used secondary panel data over the period from 1991 to 1999 obtained from 500 firms' audited annual accounts. The OLS regression results indicated that audit committee independence and audit committee meetings had significantly negative relationship with financial restatement while audit committee members with financial expertise had significantly positive relationship with it.

Bivariate Data Analysis (Correlation Analysis)

The correlation analyses among the variables are meant to first determine the association between each pair of the dependent and independent variables as well as among the explanatory variables. The degree of association may be weak (0.00 to 0.5), moderate (0.51 to 0.8) or high (0.81 and above). A very high association among the regressors poses a problem of multi-collinearity.

Table 1. Covariance Analysis: Ordinary
Date: 08/09/23 Time: 14:12
Sample: 2005 2020
Included observations: 1146
Balanced sample (listwise missing value deletion)

Covariance Correlation	FRESTDUM	PEMAC	PMFEX	PGDIV	MEET	BIG4	JAUD	LOSS	RISK	TMAC
FRESTDUM	0.232408 1.000000									
PEMAC	8.94E-05 0.038127	2.36E-05 1.000000								
PMFEX	0.001175 0.068500	-1.14E-05 -0.065935	0.001265 1.000000							
PGDIV	-0.000205 -0.004996	-2.15E-05 -0.051954	-0.000194 -0.064194	0.007217 1.000000						
MEET	0.077687 0.182856	-0.000218 -0.050976	-0.003529 -0.112587	0.014656 0.195760	0.776657 1.000000					
BIG4	0.011641 0.051570	3.72E-05 0.016358	-0.002815 -0.169026	0.005163 0.129802	0.079228 0.192004	0.219237 1.000000				
JAUD	-0.003509 -0.045584	-3.70E-06 -0.004764	0.000116 0.020403	-0.001777 -0.131001	-0.002083 -0.014806	0.002846 0.038072	0.025493 1.000000			
LOSS	-0.001339 -0.006817	2.85E-05 0.014364	0.001823 0.125751	-0.003754 -0.108448	-0.011035 -0.030725	-0.012417 -0.065077	-0.002015 -0.030965	0.166072 1.000000		
RISK	-0.011653 -0.106708	-1.28E-05 -0.011616	0.000153 0.019042	-0.001659 -0.086229	-0.013606 -0.068159	-0.007467 -0.070403	-0.000427 -0.011805	0.005604 0.060708	0.051309 1.000000	

TMAC	0.000603	-0.000277	-0.006741	0.017562	0.267701	0.150402	0.022615	-0.075747	0.008185	1.841854
	0.000922	-0.041952	-0.139636	0.152324	0.223825	0.236685	0.104364	-0.136959	0.026624	1.000000

Source: Researcher's Computations (2022) Using EViews10 Software.

From Table 1 above, the associations between all the variables of interests are are very low and this attest to the fact that there is definitely no problem of multicollinearity among the variables.

Research Gap.

There has been no study in Nigeria on audit committee characteristic and financial restatement to the best of my knowledge. Also, of the entire empirical literature reviewed, none of the studies used JAUD (joint audit), LOSS (loss reported each year) and RISK (volatility of return on assets). Again, this work differs from others in that it uses data for sixteen (16) years from 2005 to 2020 which to the best of our knowledge no one has ever used.

3.0 Methodology

3.1 Research Design

The study uses the ex-post facto research design, otherwise called the descriptive or correlational research design, to investigate the relationship if any between cash management and financial performance firms in Nigeria. The population of this research comprises 106 non-financial firms quoted on the floor of the Nigerian Exchange Group (NXG). Secondarily sourced data obtained from seven-six (76) of the 106 companies' annual reports over a period of sixteen (16) years from 2005 to 2020, making a total number of one thousand two hundred and sixteen (1,216) observations, is used in this study.

3.2 Measurement and Definitions of Variables.

Table 2

S/N	Variables Names	Definitions	Variable Types	Measurements	Authorities
1	FRESTDUM	Financial Restatements.	Dependent	Dummy variable which equals "1" in year a firm restates its previously audited account; "0" otherwise	Reinaldo.(2022); Hasnan (2022)
2	FRESTDUM(-1)	One year lag of Financial Restatements.	Independent	Preceding or Last year FRESTDUM	None used it

3	TMAC	Board size of the audit committee or total number of members of audit committee	Independent	Total members of the audit committee	Reinaldo (2022); Hasnan (2022)
4	PEMAC	Audit committee independence.	Independent	Proportion of members of the audit committee that are outsiders or who are not part of those running the affairs of the company	Reinaldo.(2022); Hasnan (2022); Mahdi et al.(2021)
5	PMFEX	Audit committee financial expertise.	Independent	Proportion of members of the audit committee that are professionals with financial in financial matters.	Reinaldo.(2022); Abbott et al.(2002);;Hasnan (2022);Mahdi et al.(2021).
6	PGDIV	Audit committee diversity.	Independent	Percentage (%) of audit committee members who are female.	Hasnan (2022)
7	MEET	Audit committee meetings	Independent	Number of time or the frequencies of audit committee meetings in a year.	Reinaldo.(2022); Hasnan (2022);
8	BIG4	Deloitte & Touche; Ernst & Young; PriceWater Cooper and KPMG	Control	Dummy variable which equals “1” in year a firm is audited by one of the four biggest audit firms; “0” otherwise	Reinaldo.(2022)

9	JAUD	Joint Audit	Control	External audit work undertaken by more than one audit firm.	None used it
10	LOSS	Net loss reported each year	Control	Dummy variable which equals "1" in year a firm makes a net loss, "0" otherwise	None used it
11	RISK	Volatility of return on assets	Control	Standard deviation of return on assets	None used it

Source: Researcher's Compilations from the Extant Literatures (2022).

3.3 Model Specification

The functional equation of firm performance to test the fourteen (14) hypotheses specified is stated as:

FRESTDUM = f (TMAC, PEMAC, PMFEX, PGDIV, MEET, BIG4, JAUD, LOSS, RISK) (1)

The above equation is anchored on the adapted works of Reinaldo.(2022); Hasnan (2022) as well as that of Orjinta and Ikueze (2018)

The functional testable model will be derived as:

$$FRESTDUM = \beta o + \beta_1 TMAC + \beta_2 PEMAC + \beta_3 PMFEX + \beta_4 PGDIV + \beta_5 MEET + \beta_6 BIG4 + \beta_7 JAUD + \beta_8 LOSS + \beta_9 RISK + \varepsilon \quad (2).$$

Since we are using panel data, the model will be specified in the appropriate form as:

$$FRESTDUM_{it} = \beta o + \beta_1 TMAC_{it} + \beta_2 PEMAC_{it} + \beta_3 PMFEX_{it} + \beta_4 PGDIV_{it} + \beta_5 MEET_{it} + \beta_6 BIG4_{it} + \beta_7 JAUD_{it} + \beta_8 LOSS_{it} + \beta_9 RISK_{it} + \varepsilon_{it} \quad (3)$$

Description of the Estimation Technique Used.

Dynamic Data Analysis using Generalized Method of Moments (GMM):

Generalized Method of Moments (GMM) regression estimation technique is a generic method for the estimation of statistical model parameters. The essence of using GMM for a dynamic panel data is to practically solve the problem of endogeneity bias which simultaneously tackles unobserved heterogeneity (Chung et al.,2018). GMM is designed to handle the problems of multicollinearity, heteroscedasticity and autocorrelation but especially second order correlation. Many studies in corporate finance which tries to explain causal-effect relationships often encounter difficulties in dealing with endogeneity and this can lead to inconsistent and biased parameter estimates (Wintoki et al., 2012) or we may not even get the right coefficient sign-positive or negative (Ketokivi & McIntosh, 2017), thereby resulting in misleading inferences, conclusions and interpretations (Li et al., 2021).
Including the lagged dependent variable to equation 3, we have:

$$FRESTDUM_{it} = \beta o + \beta_1 FRESTDUM_{it-1} + \beta_2 TMAC_{it} + \beta_3 PEMAC_{it} + \beta_4 PMFEX_{it} + \beta_5 PGDIV_{it} + \beta_6 MEET_{it} + \beta_7 BIG4_{it} + \beta_8 JAUD_{it} + \beta_9 LOSS_{it} + \beta_{10} RISK_{it} + +\varepsilon_{it} \quad (4).$$

$$FRESTDUM_{it} = \beta o + \beta_1 FRESTDUM_{it-1} + \beta_2 TMAC_{it} + \beta_3 PEMAC_{it} + \beta_4 PMFEX_{it} + \beta_5 PGDIV_{it} + \beta_6 MEET_{it} + \varepsilon_{it} \quad (5).$$

GMM uses the lagged dependent variables as one of the instrumental variables first, to eliminate autocorrelation in the residuals and, secondly, to capture the dynamism in panel data by controlling for endogeneity bias. By including the lagged value of the dependent variable, that is, $FRESTDUM_{it-1}$, due to unobserved heterogeneity transforms the static model to a dynamic one.

β1, β2, β3, β4, β5, β6, β7, β8, β9, β10 = Beta coefficient of the independent and control variables. From this study, we expect β1 to β10 to be greater than zero.

ε_{it} = Stochastic White Noise or Error term.

4.0 Method of Data Analysis

Data collected are analyzed using EViews 10+ in estimating the models and then perform some diagnostics tests.

Dynamic Panel Generalized Methods of Moments Estimation Results.

Table 3a Dependent Variable: FRESTDUM
Method: Panel Generalized Method of Moments
Transformation: First Differences
Date: 08/09/23 Time: 13:52
Sample (adjusted): 2007 2020
Periods included: 14
Cross-sections included: 75
Total panel (unbalanced) observations: 997
White period instrument weighting matrix
White period standard errors & covariance (d.f. corrected)
Instrument specification: @DYN(FRESTDUM,-2)
Constant added to instrument list

Variable	Coefficient	Std. Error	t-Statistic	Prob.

FRESTDUM(-1)	0.378396	0.021775	17.37715	0.0000
TMAC	-0.024945	0.052818	-0.472286	0.6368
PEMAC	7.052953	1.219313	5.784368	0.0000
PMFEX	1.156039	0.416451	2.775932	0.0056
PGDIV	0.785675	0.085868	9.149789	0.0000
MEET	0.384816	0.016350	23.53637	0.0000
BIG4	0.500503	0.170527	2.935034	0.0034
JAUD	-1.560865	1.464190	-1.066027	0.2867
LOSS	-0.063239	0.011435	-5.530149	0.0000
RISK	-0.540259	0.060836	-8.880573	0.0000
	Effects Specification			
Cross-section fixed (first differences)				
Mean dependent var	0.015045	S.D. dependent var		0.277638
S.E. of regression	0.373733	Sum squared resid		137.8607
J-statistic	46.78942	Instrument rank		55
Prob(J-statistic)	0.398861			

Source: Researcher's Computations (2023) Using EViews10 Software.

Table 3 above shows the regression estimation results of the relationship between audit committee characteristics (TMAC, PEMAC, PMFEX, PGDIV, MEET) as well as some control variables (BIG4, JAUD, LOSS, RISK) and financial restatement (FRESTDUM) of the 76 sampled firms.
A look at the coefficient (0.378396) of FRESTDUM (-1) shows that it is positively significant (p= 0.0000) at the 1% levels of significance. This result is in line with the extant literature that the dependent variable and its lag move in the same direction and must be significant. This means that the current year performance can be directly affected by previous period performance in the light of new information we were not aware of. Again, since the p-value of Sargon statistic or J-Statistic (0.398861) is higher than the threshold of 5% and 10% or even the 25% or more suggested by Roodman, our model is free from the problem of instruments proliferation.

TMAC relationship with TRESTDUM is negatively insignificant with a coefficient of -0.024945, a t-Statistic of --0.472286 and a p-value of 0.6368. This suggests that an increase in total board size of audit committee will negligibly reduce or not even reduce at all management tendencies to restate past financial reports or statements. The sign or direction is aligned with our expectations but the size or magnitude is not in line with our expectations. We, therefore, accept the null hypothesis of no significant relationship between TMAC and TRESTDUM. This result is in not in line with any previous literature reviewed but contradicts those of Reinaldo (2022) and Hasnan (2022) which had a negatively significant relationship.

PEMAC relationship with FRESTDUM is positively significant with a coefficient of 7.052953, a t-Statistic of 5.784368 and a p-value of 0.0000. This suggests that an increase in external members of audit committee (PEMAC) or audit committee independence will increase management tendencies to restate past financial statement (FRESTDUM). The sign or direction is not in line with our expectations but the size or a magnitude is in line with our expectations. We, therefore, reject the null hypothesis of no significant relationship and accept the alternative hypothesis that there is a significant relationship between PEMAC and FRESTDUM. This result is in line with that of Orjinta and Ikueze (2018) but contradicts those of Reinaldo.(2022); Hasnan (2022) and Mahdi et al.(2021)

PMFEX relationship with FRESTDUM is positively significant with a coefficient of 1.156039, a t-Statistic of 2.775932 and a p-value of 0.0056. This suggests that an increase in expertise of members of audit committee (PMFEX) will increase management tendencies to restate past financial statement (FRESTDUM). The sign or direction is not in line with our expectations but the size or a magnitude is in line with our expectations. We, therefore, reject the null hypothesis of no significant relationship and accept the alternative hypothesis that there is a significant relationship between PMFEX and FRESTDUM. This result is in line with that of Reinaldo.(2022) and Abbott et al.(2002) but contradicts those of Hasnan (2022) and Mahdi et al.(2021).

Proportion of female in audit committee (PGDIV) as well as the frequencies of audit committee meetings(MEET) are positively significant with financial restatement (FRESTDUM). Their interpretations are in line with those of PEMAC and PMFEX which means that they do no help the firms under investigations in lessening the propensity of management to restate past financial statement.

PGDIV relationship with FRESTDUM is positively significant with a coefficient of 0.785675, a t-Statistic of 9.149789 and a p-value of 0.0000. This suggests that an increase in number of women in the audit committee (PGDIV) will increase management tendencies to restate past financial statement (FRESTDUM). The sign or direction is not in line with our expectations but the size or a magnitude is in line with our expectations. We, therefore, reject the null hypothesis of no significant relationship and accept the alternative hypothesis that there is a significant relationship between PGDIV and FRESTDUM. This result is not in line with any previous study but contradicts that Hasnan (2022).

MEET relationship with FRESTDUM is positively significant with a coefficient of 0.384816, a t-Statistic of 23.53637 and a p-value of 0.0000. This suggests that an increase in the number of times members of audit committee meet (MEET) will increase management tendencies to restate past financial statement (FRESTDUM). The sign or direction is not in line with our expectations but the size or a magnitude is in line with our expectations. We, therefore, reject the null hypothesis of no significant relationship and accept the alternative hypothesis that there is a significant relationship between MEET and FRESTDUM. This result is not in line with any previous study but contradicts those of Reinaldo (2022); Hasnan (2022) and Abbott et al.(2002) .

For the control variables (Big4, JAUD, LOSS and RISK), while the Big4 is positively significant; JAUD is negatively insignificant but LOSS and RISK are positively significant. The result of LOSS shows that managers fear to restate financial reports whenever losses are made and also whenever there is RISK of high fluctuations in profits.

4.1 Additional Tests of Robustness Checks

In Equation 5 where the control variables are removed, the regression results did not significantly depart from that of Equation 4 with control variables as shown in Table 3b below. The overall results attest to the fact that audit committee characteristics did not help in reducing management tendencies to reduce financial restatements of firms for the period under consideration.

Table 3b Dependent Variable: FRESTDUM
Method: Panel Generalized Method of Moments
Transformation: First Differences
Date: 08/09/23 Time: 13:46
Sample (adjusted): 2007 2020
Periods included: 14
Cross-sections included: 75
Total panel (unbalanced) observations: 1047
White period instrument weighting matrix
White period standard errors & covariance (d.f. corrected)
Instrument specification: @DYN(FRESTDUM,-2)
Constant added to instrument list

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FRESTDUM(-1)	0.285660	0.023170	12.32880	0.0000
TMAC	0.028561	0.038726	0.737523	0.4610
PEMAC	6.237232	1.621327	3.846991	0.0001
PMFEX	2.321014	0.468108	4.958283	0.0000
PGDIV	0.456835	0.112363	4.065696	0.0001
MEET	0.427103	0.048228	8.855999	0.0000

Effects Specification

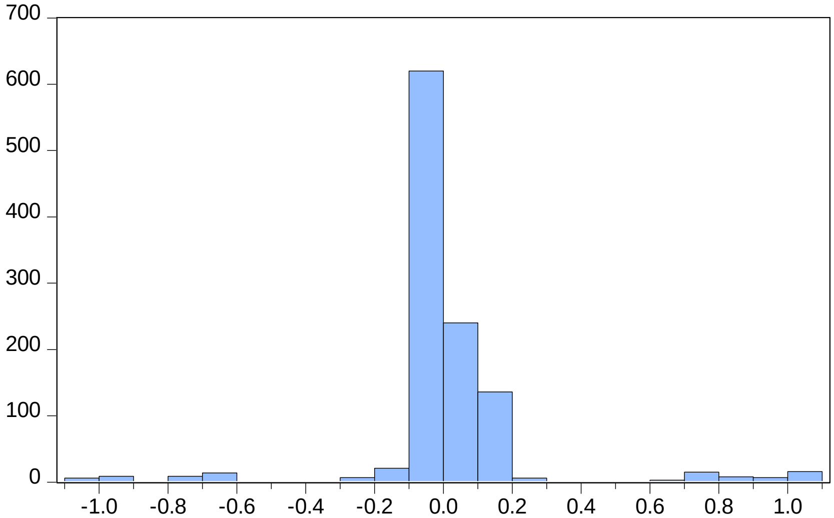
Cross-section fixed (first differences)

Mean dependent var	0.014327	S.D. dependent var	0.281326
S.E. of regression	0.345356	Sum squared resid	124.1609
J-statistic	41.47836	Instrument rank	45
Prob(J-statistic)	0.363142		

Source: Researcher’s Computations (2023) Using EViews10 Software.

4.2 Diagnostics Tests of Normality

Table 4: Normality Test



Series: Standardized Residuals	
Sample 2006 2020	
Observations 1121	
Mean	0.022906
Median	-0.009367
Maximum	1.037193
Minimum	-1.077476
Std. Dev.	0.250047
Skewness	0.491606
Kurtosis	11.98694
Jarque-Bera	3817.555
Probability	0.000000

The purpose of the normality test is to determine if the distribution of data within a group of data or variables is regularly distributed or not. Data that has been collected in a normal distribution or taken from a normal population can be identified using the normality test. In data analysis, normalcy assumptions are used by descriptive statistics, correlation, regression, ANOVA, t tests, etc. This normality assumption should be upheld despite the sample size because choosing the incorrect data set representation will result in an incorrect interpretation (Mishra et al., 2019). Again, it is essential to check for non-normal errors in regression models since the assumption of normality is crucial for the validation of inference techniques, forecasting, and model specification tests, both conceptually and methodologically (Alejo et al., 2015). However, Ghasemi and Zahediasl (2012) noted that, in accordance with the central limit theorem (CLT), violating the normality assumption shouldn't be a significant problem once the sample size is 100 and above. From the value of Jarque-Bera statistic and its probability value in Table 4 above, the data used in analyzing the regression model are not normally distributed since the p-value is less/lower than 0.05, that is, 5%. This is not a problem because the number of observation is large at 1,216.

5.0 Conclusion and Recommendations.

This study investigates whether there is any relationship between audit committee characteristics and financial restatement. Using secondary data over the period from 2005 to 2020 of 76 non-financial firms, the results of the generalized methods of moments reveal that audit committee independence, audit committee diversity, audit committee meetings and audit committee expertise are positively significant with financial restatement while total audit committee size is negatively insignificant with it.
Based on the results above, the study recommends that:

- More women should be added to the board since PGDIV is positively related with financial restatement.
- The ratio of external audit committee members to internal members should be 3:2 instead of the current 2:3 as internal members are more likely to compromised to management than external members. In Hong Kong, the five audit committee members are external.
- The entire members of the audit committee must be financially literate in matter of financial statement analysis and interpretations.
- Management should maintain current board size, board meetings, foreign ownership and institutional ownership levels they are positively related to profitability.
- The level of losses (LOSS) and instability of profitability (RISK) should be investigated since they are negatively related to restatement. This means that when LOSS and RISK increase, restatement decrease.

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